MAX

כאן קונים בכיף

2020 Periodic Report

Max Stock Ltd

Max Stock in numbers

2020 revenue	ILS 1,010M
% increase in revenue in 2020 vs. 2019	36%
% increase in same store sales in 2020 vs. 2019	11%
2020 operating profit	ILS 151M
% increase in operating profit in 2020 vs. 2019	48%
2020 EBITDA	ILS 200M
% increase in EBITDA in 2020 vs. 2019	42%
2020 net profit	ILS 87M
% increase in 2020 net profit vs. 2019	25%
2020 earnings per share	ILS 0.51
50 branches across Israel	

Max Stock Ltd.

2020 PERIODIC REPORT

TABLE OF CONTENTS

Chapter A: Description of the Corporation's Business

Table of Contents

Part I: Description of the General Development of the Group's Business Affairs

1.1 Introduction

This chapter presents a description of the business affairs of Max Stock Ltd. (the "**Company**" and/or "**Max**", and jointly with the Subsidiaries: the "**Group**") and the development of its business affairs.

1.2 Definitions

In this Report, the following abbreviations and terms shall have the meanings set forth below:

"**Board Report**"	:	The Board of Directors' report regarding the corporation's affairs for the year ended December 31, 2020 included in Chapter B to this Report;
"**Financial Statements**"	:	The Company's consolidated financial statements for the year ended December 31, 2020;
"**Prospectus**"	:	Company's tender offer prospectus and shelf prospectus dated September 15, 2020 (Reference No.: 2020-01-092029);
"**Companies Law**"	:	The Companies Law, 5759-1999.
"**Securities Law**"	:	The Securities Law, 5728-1968.

1.3 Company's Operations and Description of the Development of its Business Affairs

1.3.1 General

The Company is engaged in a retail business through the operation of a national "discount" chain of stores trading under the name "Max - Here it's Fun to Shop" and "Max 20" which offer a range of houseware products at attractive prices nationwide (the "**Max Chain**" or the "**Chain**"). As of the date of this Report, the Chain includes 50 branches[1] throughout the country, from Qiryat Shemona to Eilat, mostly operated through subsidiaries and the rest through franchises.

The Group imports and sells in the Chain's stores different categories of products, and primarily: school supplies, disposable tableware, plastic products

[1] Including the Dimona branch which was closed in November 2020, and is expected to re-open in a new and larger location by the beginning of Q2 2021.

and storage-ware, toys and arts & crafts supplies. In addition, the Group imports and sells in the Chain's stores decorative items and gifts, textile and apparel products, baking and kitchenware products, household tools, furniture, toiletries, pharm products and more (for additional details, see Section 1.13 below).

The Chain's stores are divided into two main types:

(a) **large stores**, under the brand "Max - Here it's Fun to Shop", offering a wide selection of products of all categories, the vast majority of which operate in commercial areas, in locations highly accessible to vehicles with convenient parking arrangements. The Chain includes 35 large stores[2], operated by subsidiaries and one indirect subsidiary, excluding 8 stores operated by franchisees;

(b) **small stores**, under the brand "Max 20", the vast majority of which operate in city centers offering products in most of the Chain's categories (but usually, smaller products and no furniture), with a selection adapted to the clientele in the area in which the relevant store is located, and at a price not exceeding NIS 20 per product (including VAT). The Chain includes 15 small stores, operated by franchisees, excluding one store operated by an indirect subsidiary.

As of December 31, 2020, the majority of the Company's revenues (approximately 92%) derive from large stores, operated by subsidiaries[3]. The Company's business strategy is to primarily continue focusing on large stores, operated by subsidiaries (for additional details, see Section 1.29.1 below).

As of the date of this Report, the Group is one of the leading businesses in its field and its stores are well known in Israel. The Group estimates that the continuing demand for shopping in the Chain's stores derives primarily from the Group's management expertise in identifying new consumer trends; the unique shopping experience offered by the Chain's stores; high value for money; the meticulous adjustment of the stores' inventory in a constant and consistent manner in parallel to the changing seasons and the different holidays; and keeping up with the latest fashion trends and consumer demands.

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[2] See footnote 1 above.

[3] Neutralizing the protective equipment transactions, as detailed in Section 1.27.6 below, the Company's revenues deriving from owned large stores amount to approximately 92%.

Moreover, in the Company's estimation, Max Chain is unique in the Israeli market in that it is not satisfied with just offering its customers a wide selection of products from diverse and different categories, but also ensures that a very wide and diverse selection of products is available to its customers in each category at attractive prices and good quality, constantly introducing new products catering to consumer trends and rapidly changing consumer preferences (providing extreme value).

The Group's uniqueness is also reflected in its devoted clientele, which has developed over the years of its operations. Many of the Chain's customers are repeat customers. The Group estimates that, as of the date of this Report, there are hundreds of thousands of members of various groups engaged with the Company via social networks, where most such groups as stated above, were not established by the Company but, rather, by customers (for additional details, see Section 6.16.1.1 below). Via social networks, the customers of the Group share information and receive updates on recommended sales, the opening of new branches, new products expected to reach stores, and more, thus promoting product demand and intensifying the shopping experience at Max Chain, creating a consumer culture unique to the Group's stores.

1.3.2 **Incorporation of the Company and Main Changes in its Shareholdings**

The Company was incorporated in 2004 as a private company under the name "Max Stock Ltd." by Ori Max, on November 17, 2015 it changed its name to "Max Management Israel Ltd." and on March 10, 2020, the Company's name was changed again, back to "Max Stock Ltd.".

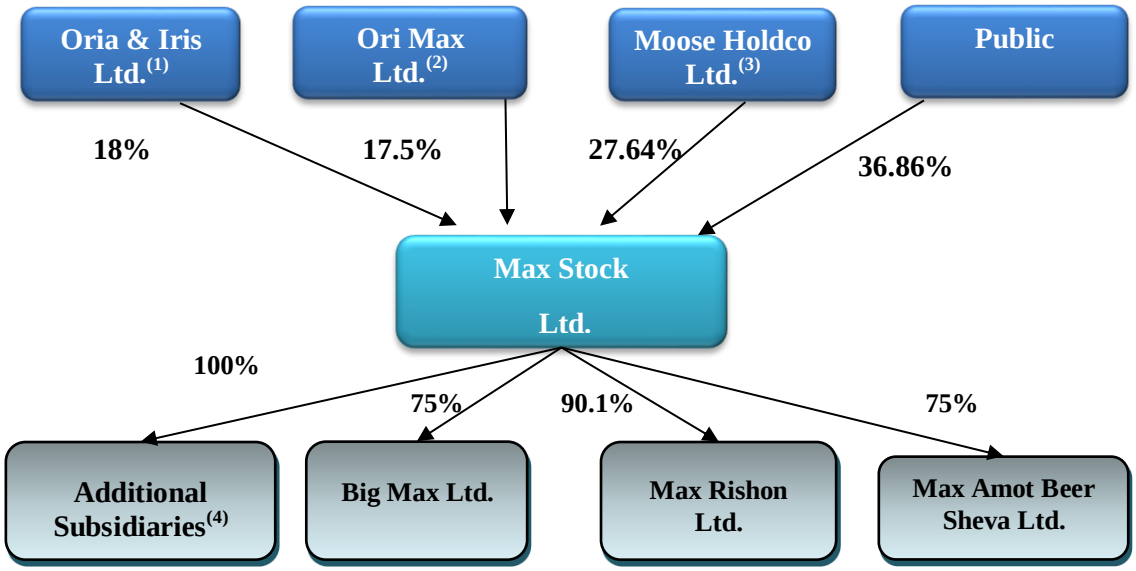
In July 2014, the Company and its then-shareholders entered into an agreement with Oria & Iris Ltd., a company wholly owned by Mr. Evan Charles Neumann, whereby the Company transferred 33.3% of its outstanding share capital to Oria & Iris Ltd. In early 2017, following the acquisition of the holdings of a shareholder in the Company at that time, by the other Company shareholders, the holdings of Messrs. Neumann and Max increased to 50% each.

In June 2017, AMI Foundation (as defined in Section 1.3.3 (3) below) purchased, through a corporation under its control, 55% of the outstanding share capital of the Company. For additional details regarding transactions involving the Company's shares see Section 1.5 below.

As of the date of this Report, the Company's shareholdings are as described in Section 1.3.3 below.

1.3.3 **Structure of the Group's Shareholdings**

The following diagram shows the structure of the Company's shareholdings as of the date of this Report:



(1) Oria & Iris Ltd. is a company wholly-owned by Mr. Evan Charles Neumann. 16.67% of the company's share capital is held by Oria and Iris Ltd., in trust for Neumann Co PTY, an Australian company wholly owned by Mr. Ricky Neumann, the brother of Mr. Evan Charles Neumann (the "**Shares in Trust**").

(2) Ori Max Ltd. is a company wholly-owned by Mr. Ori Max.

(3) Moose Holdco. Ltd. ("**Moose Holdco**") is a private company incorporated in Israel. As provided to the Company, Moose Holdco is wholly (100%) held (indirectly) by AMI Opportunities, a foreign private investment fund (incorporated in Guernsey). AMI Operations is wholly-controlled (indirectly) by AMI Foundation (a corporation incorporated in Guernsey) through its organs (and particularly its managers (Councilors) - Carl Hermann Konrad Friedlaender and Bruce Stephen James and its guardian - Robert Edward Alistair Eden ("**AMI Foundation**"). To the Company's best knowledge, AMI Foundation is advised by Apax Partners Israel Ltd. For additional details regarding the acquisition of the Company's shares by AMI Foundation, see Section 1.5 below.

(4) As of the date of this Report, the Company has 25 active subsidiaries which are private companies incorporated in Israel, the vast majority of which are held by the Company in rates ranging between 70% and 100%.[4] These Subsidiaries, along with an additional indirect subsidiary, operate 27 stores overall, under the brand "Max – Here It's Fun to Shop" of the Max Chain stores (one subsidiary operates two stores simultaneously). An additional indirect subsidiary operates a store under the brand "Max20". The above chart presents the Group's main Subsidiaries (but it is noted that as of the date of this Report, there is no Subsidiary that the revenue from its activity constitutes more than 10% of the Company's revenue). For details regarding the acquisition of minority rights from shareholders of subsidiaries, by the Company, see Section 1.5(c) of the Board Report.

1.4 **Area of Operation**

As of the date of this Report, the Group is engaged in one operating segment – retail trade, as described in Section 1.3.1 above.

1.5 **Investments in the Company's Share Capital and Transactions with its Shares**

1.5.1 AMI Foundation's Investment – On June 6, 2017, Ori Max Ltd., Oria & Iris Ltd. (the "**Sellers**") and the Company entered into an agreement with Moose Topco Ltd. (the "**Purchaser**") to sell the Company's shares, whereby the Purchaser acquired 55% of the Company's outstanding share capital, in consideration for a total amount of NIS 170,500,000 (the "**Purchase Agreement**"), which reflected a price per share of NIS 7,029.5.[5] According to the provisions of the Purchase Agreement, on June 19, 2017, the Purchaser assigned its entire rights under the Purchase Agreement to Moose Holdco., a company wholly-owned by the Purchaser. On July 20, 2017, the transaction closed in accordance with the Purchase Agreement.

1.5.2 Tender offer and listing on TASE – on September 14, 2020, the tender offer of

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[4] With the exception of one branch where the manager holds 45% of the outstanding share capital of the subsidiary, and an additional branch where the Company holds 45% of its ordinary share capital and one single management share that grants it a right to appoint a director. There are 4 additional shareholders in the same branch, including the branch manager, who holds 10% of the issued and outstanding share capital of the subsidiary.

[5] Following the split of the registered share capital of the Company on September 1, 2020, the price per share that is reflected by the Purchase Agreement is approximately NIS 2.17782.

Company's shares to institutional investors according to the Prospectus was completed and the Company became a public company. The price of the Company's share under the tender offer was NIS 12 per share. For additional details see the Company's immediate report regarding the results of the institutional tender dated September 16, 2020 (Reference No.: 2020-01-092830). On September 17, 2020, trading in Company's shares commenced on the Tel Aviv Stock Exchange Ltd. ("**TASE**").

On November 19, 2020, the TASE announced that by the close of trading on December 3, 2020, Company's shares shall be added to the following indices: Tel Aviv-125; Tel Aviv-90, Tel Aviv-SME150, Tel Aviv-Rimon and Tel Aviv-AllShare.

1.5.3 Over subscription – further to that set forth in Section 2.5.3 of Chapter 2 of the Prospectus, on September 21, 2020, Jefferies LLC, the lead underwriter of the Tender offer under the Prospectus (the "**Lead Underwriter**") notified Moose Holdco Ltd. ("**Moose**"), the Company's controlling shareholder, of the exercise of the option given to it to purchase from Moose an additional 6,750,000 ordinary shares of the Company without par value, constituting 15% of the amount offered under the Prospectus, under the terms specified in Section 2.6.5 of the Prospectus. The option exercise transaction was completed on September 23, 2020. For additional details see the Company's immediate reports dated September 22 and 23, 2020 (Reference No.: 2020-01-094918 and 2020-01-095374, respectively).

1.5.4 Securities lock-up – further to that set forth in Section 3.7.10 of Chapter 3 of the Prospectus, on October 21, 2020, the trustee for the lock-up of Company's shares held by Moose, Oria & Iris Ltd. and Ori Max Ltd. was replaced in order to comply with the lock-up provisions according the TASE regulations and directives. The new trustee for the locked-up shares is Altshuler Shaham Trusts Ltd.

1.5.5 Issue of options to employees and office holders – on November 29, 2020, the Company's Remuneration Committee and Board approved a private issue of 2,274,258 options which are not registered for trade, exercisable into 2,274,258 ordinary shares of the Company, to five office holders and an additional 21 employees of the Company, in the framework of a private placement which is not a material private placement (as this term is defined in the Securities Regulations (Private Placement of Securities in a Registered Company), 5760-2000 (the "**Private Placement Regulations**"). On December 23, 2020, TASE approval was received to list the shares which would derive from the exercise of the aforesaid

options. For additional details see the immediate reports published by the Company on November 29, 2020 and December 23, 2020 (Reference No.: 2020-01-129285 and 2020-01-139296, respectively), included herein by way of reference.

1.5.6 Issue of options to a director – following the approval of the Company's Remuneration Committee and Board dated November 29, 2020, on November 30, 2020, the Company published an invitation for an extraordinary general meeting for the approval of a private issue of 46,706 options which are not registered for trade, exercisable into 46,706 ordinary shares of the Company to Mr. Shlomo Zohar, one of the Company's directors, in the framework of a material private placement (as this term is defined in the Private Placement Regulations). On December 21, 2020, the general meeting approved the issue of said options to Mr. Zohar and on December 23, 2020, the TASE approved the listing of the shares which would derive from the exercise of said options. For additional details see immediate reports published by the Company on November 30, 2020 and December 21, 2020 and December 23, 2020 (Reference No.: 2020-01-129789, 2020-01-130444 and 2020-01-139296, respectively), included herein by way of reference.

1.6 Distribution of Dividends

1.6.1 Presented below are details about dividends distributed by the Company in the two years preceding the date of this Report:

Distribution Date	Dividend Amount (NIS Thousands)	Is Court Authorization Required
June 6, 2019	36,000	No
November 17, 2019	14,000	No

1.6.2 As of December 31, 2020, the Company has distributable profits (as defined in Section 302 of the Companies Law), totaling NIS 143,544 thousand.

1.6.3 The Company shall distribute dividends pursuant to the resolution of the Company's Board of Directors as in effect from time to time, according to its financial position and subject to compliance with the relevant provisions of the law. As of the date of this Report, the Company does not have a dividend distribution policy.

Part II: Other Information

1.7 Financial information regarding the Company's operating segment

The following is financial information regarding the operating segment taken from the Company's Financial Statements for the years 2018, 2019, and 2020 (NIS thousands):

		2020	2019	2018
Revenues from the Operating Segment		885,695	741,550	617,986
Gross Profit		344,589	293,547	242,946
Profit from ordinary operations	From ordinary activities attributed to the owners	71,825	58,892	49,443
	From ordinary activities attributed to minority rights	14,982	11,382	9,371
Total assets		932,724	632,897**	212,161
Total liabilities		737,132	512,841**	88,188

** The increase is mainly due to the effect of IFRS 16.

For the Board of Directors' explanations of the Company's financial data specified in the Financial Statements see the Board Report in chapter B to this Report.

1.8 General Environment and the Impact of External Factors on the Company's Operations

The following are the macro-economic factors which affect or may affect the Group's operations:

1.8.1 Competition

For details concerning the effect of competition on the Group's operations, see Section 1.17 below.

1.8.2 Seasonality

The Company's operations are sensitive to seasonal fluctuations with respect to management strategy, marketing and sales to the extent relevant to and affecting a particular group of products. For additional details concerning seasonality of the Group's operating segments, see Section 1.18 below.

1.8.3 Currency Fluctuations

The Group purchases approximately 50% of its products from overseas suppliers, particularly from the far east. These purchases are made in foreign currency while the Group's sales to local consumers are made in NIS. Accordingly, fluctuations in the U.S. dollar to NIS exchange rate may obligate the Group either to update its sale prices, which may affect its competitive position and affect its margins. Hence, these fluctuations may have a material effect on the Group's costs and revenues and on the development of its business affairs. In order to minimize the influence of currency fluctuations on the Company's results, the Company performs defense transactions, from time to time, according to the management's discretion and its needs. For further details, see Note 16F to the Financial Statements.

1.8.4 Changes in the Consumer Price Index

The Group leases properties and conducts its business affairs in Israel. Therefore, the Group's entire obligations to lessors, all of its revenues and a considerable percentage of its costs and expenses are in NIS. Accordingly, material changes in the Consumer Price Index may impact the Group's financial results, since its revenues are not linked to the index, while some of its costs and expenses, including, *inter alia*, in connection with leases of the Chain's stores, are linked to the index and are exposed to changes therein. In 2020, the Consumer Price Index declined by 0.7%.

1.8.5 Economic Position of the Market and Changes in Standard of Living and Consumption Habits

The demand for products of the type sold in the Chain's stores may be affected by changes in household income and the level of economic activity in the Israeli market. Economic slowdown or recession in the market, as well as changes in consumer habits in Israel, may reduce the scope of private consumption and retail sales in general. For details regarding an economic slowdown in the market due to the spread of COVID-19 (the "**Virus**" or the "**Coronavirus**") and its effect on the Company's operations, see Section 1.8.10 below and Section 1.4 of the Board Report. It should be noted that in accordance with the forecasts of the Bank of Israel[6] and due to the effect of the Coronavirus, in 2021 economic growth of

[6] Published in January, 2021, https://www.boi.org.il/he/NewsAndPublications/PressReleases/Pages/04-01-2021a.aspx

6.3% is expected in the rapid vaccination scenario (a scenario which includes a rapid vaccination of the population by May 2021) and economic growth of 3.5% according to the slow vaccination scenario (a scenario which includes a slow vaccination of the population by June 2022).

1.8.6 Changes in Consumer Preferences

The field of retail sales of the Chain's products is subject to constant changes in consumer preferences, which materially affect the Company's results and business affairs and obligate it to foresee and respond to said changes in real time by keeping up, with respect to some of its products, with the latest and rapidly changing fashion trends. As part of the Company's purchasing strategy and the constant desire to freshen-up the selection of its products, the Company has a purchasing and import department consisting of professionals who continuously keep up with global trends and whose work enables the Company to adapt itself to market trends and new import opportunities, and occasionally even to lead market and consumer trends. In addition, the Group adjusts its purchasing and import activity to long term consumer preferences as opposed to "passing trends" and, occasionally imports, on a one-time basis large quantities of certain products offered for sale until "stock runs out", as opposed to products which are regularly available in the Chain's stores. Accordingly, *inter alia*, the Company keeps up-to-date and adjusts its products according to consumer preferences, while maintaining stock in volumes compatible with the scope of its operations.

1.8.7 Changes in Employment Conditions

The Company's operations may be affected by regulatory changes in the minimum wage and other material changes related to employment of employees in Israel. Due to the large number of minimum wage employees employed by the Company, a significant minimum wage increase would increase the Company's wage-related expenses significantly (due to the fact that a minimum wage increase also indirectly affects other wage levels in the Company), and, consequently, would affect the Company's business results and decrease its margins. For additional details regarding minimum wage increases in recent years, see Section 1.26.2 below.

1.8.8 Regulatory Changes

The Company's operations are exposed to and affected by statutory provisions and orders on import, consumerism, including price control of products and

services, product quality and returns, intellectual property rights, business licensing, accessibility, and more. Consequently, regulatory changes applicable to the Company's operations may materially affect the pricing of the Company's products and its financial position and results. In addition, the Company invests financial and managerial resources to comply with the regulatory requirements to the maximum extent possible. For additional details regarding regulations applicable to the Company's operations, see Section 1.26 below.

1.8.9 Changes in the Security Situation in Israel

The Company's operations may be sensitive to security instability, as a result of the fact that the Chain's stores are deployed throughout the country, from north to south, and due to the fact that the Chain's large stores are situated in commercial areas as independent stores. Deterioration of the security situation may reduce customers' arrival to the Chain's stores, thus reducing its sales and adversely affect the Group's financial results.

1.8.10 Health Emergencies

During the first quarter of 2020, there was an outbreak of the COVID-19 virus in China, which began to spread in many countries around the world, including Israel. The spread of the Virus has widespread macroeconomic and microeconomic effects, which naturally have a material impact on the Chain's activity, on the operation of the Chain's stores as well as on its suppliers abroad, including local suppliers in China. As of the approval date of the Financial Statements, the Chain's suppliers in China have returned to operating at full capacity, and the outbreak of the Virus as it was in China is not materially affecting the continuation of operations with suppliers. Further, the mix of products imported by the Company or their prices have not changed materially.

Nevertheless, the spread of the Virus has, *inter alia*, disrupted the chain of supply, decreased the scope of global transportation, increased shipping prices, caused the Israeli government as well as many other governments around the world to impose restrictions on movement and commerce and reduced the value of financial assets and commodities in markets in Israel and worldwide. In addition, as part of the attempts of the Israeli government to cope with the Coronavirus and to stem its spread, the Israeli government has taken unprecedented steps that are continuously changing, which have and shall continue to have a material impact on business operations in Israel in general, and the Chain's operations in particular.

Accordingly, towards the end of Q1 2020, the Israeli government issued instructions and guidelines in the framework of orders and emergency regulations restricting movement, gatherings, restricting and/or shutting down commercial, recreational and leisure activities (the "**First Lockdown**"), as well as guidelines for staying in quarantine in the event of exposure to Coronavirus patients or infection.

In the First Lockdown, which was imposed towards the end of Q1 and continued during the beginning of Q2, the Company's stores were closed. The Israeli government allowed the market to resume activity in stages during the months of April – May 2020, and Company's stores resumed operations on April 19, 2020 under the "purple seal" rules and conditions (which include, *inter alia*, the obligation to wear masks in the stores, installing a Perspex partition by the cashiers, limiting the number of persons in each store according to a certain ratio set out in the regulations and preventing gatherings).

Towards the end of Q2, 2020 and during Q3, 2020, as a result of another outbreak and spread of the Virus, additional limitations were imposed by the government. Consequently, as of September 18, 2020, another lockdown was imposed, which included shutting down commercial activity, imposing restrictions on entering and leaving residential homes and closing the education system (the "**Second Lockdown**"). Notwithstanding the restrictions, the Company's stores continued operating during the Second Lockdown according to the regulations which allowed essential businesses and additional businesses as defined in the regulations to stay open and operate.

During Q4, 2020, commercial activity was partially allowed to recommence (including street-front stores and shopping centers), but in view of increased infection rates in Israel, on December 27, 2020 another lockdown was imposed under conditions similar to those of the Second Lockdown, namely, shut down of commercial activity (excluding essential stores as defined in the regulations) and the education system (the "**Third Lockdown**"). Notwithstanding the fact that more rigorous restrictions were imposed during the Third Lockdown, the Company's stores continued operating, save for certain departments within the stores not defined as essential. On February 21, 2021, after the date of the Report, the Israeli government started allowing the renewal of commercial activity under "strict purple seal" restrictions. As of the approval of the Financial Statements, most commercial activity was allowed and Company's stores operate fully and regularly.

At the same time, during Q4, 2020, the State of Israel launched a vaccination campaign administering Pfizer and Moderna vaccines which were approved by the US Federal Drug Administration (FDA). In a wide-scoped vaccination campaign, as of the date of this Report, approximately 4.5 million persons were

vaccinated in Israel, of whom approximately 3.1 million received two doses[7]. Once vaccination in Israel and around the world is completed, gradual economic growth is expected, as can be seen in macro-economic forecasts of different economic bodies.[8] Notwithstanding the above, at this stage it is not yet possible to assess the success of the vaccination campaign and the continued spread of the Virus, including, *inter alia*, the effectiveness of vaccines against Coronavirus variants which started to spread around the world, including in Israel, and whether the crisis is about to end within the next few quarters or whether it may take more time. The Company keeps track of the developments and the impact of the Coronavirus crisis, and makes the necessary adjustments in its activities, to the extent necessary, according to the circumstances and restrictions imposed from time to time, and shall revise its assessments accordingly.

For additional details on the effect of the Coronavirus crisis on the Chain's operations, and the Company's manner of coping with the guidelines and restrictions imposed by the Israeli government, see Section 1.4 of the Board Report.

During the reporting period, and following guidelines and restrictions imposed from time to time by the Israeli government due to the spread of the Coronavirus, including the three lockdowns imposed by the Israeli government to prevent the pandemic from spreading, changes occurred (increases and decreases) in the sales of the Chain's stores. Alongside a decrease in sales deriving from the closing of the stores in March-April 2020, sales in the Chain's stores increased during the other months of 2020 (compared to the corresponding period last year). Therefore, the impact of the spread of the Coronavirus on the overall annual results of the Company is not material. New guidelines and restrictions, regulatory changes and policy changes, if any, may have an impact on the Chain's operations, including the option to impose lockdown and shut down of business operations in Israel. It should however be clarified that as specified above, the Chain's stores continued to operate (fully or partially) during all lockdowns imposed by the Israeli government during the reporting

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[7] https://datadashboard.health.gov.il/COVID-19/general

[8] Governor of the Bank of Israel, Prof. Amir Yaron on "The Corona Crisis – The economic situation and looking into the Future" College of Management at:
https://www.boi.org.il/he/NewsAndPublications/PressReleases/Pages/18-11-20.aspx

period (other than during the First Lockdown in March-April 2020).

It should be noted that the spread of the Coronavirus is an event which by its nature, scope and effects are constantly changing over which the Company has no control, and therefore the information, data, and preparation of the Chain as described in this Report, are based on information available to the Company as of the date of approval of the Financial Statements.

The possible consequences of the spread of the Coronavirus on the Chain's operations as described above and below, fall within the definition of "forward-looking information" under the Securities Law, which occurrence is not certain and is not within the Company's control. This information is largely based on public information with respect to the Coronavirus available as of the date of this Report (and continuously changing) and Company estimates based, inter-alia, on information known as of the date of this Report. It shall be clarified, that there is no certainty that all or part of such estimates will be realized, and they may also be materially different from the estimates presented above, due to, inter-alia, their dependence on external factors beyond the Company's control, such as changes and trends in the spread of the Coronavirus, decisions of competent bodies in Israel and worldwide, and influences on consumption habits of the Company's customers.

For further details on health emergencies as a risk factor to the Group's operations, see Section 1.31.7 below.

The Company's assessments concerning the trends, events and developments in the macro-economic environment in which the Group operates, which may affect its operations and business results, and the manner they may affect it, its operations and results, fall within the definition of "forward-looking information" under the Securities Law. The occurrence of these events is not certain, since it is affected by a host of factors which are not within the Company's control and rather, may be affected, inter alia, by the factors specified above, including the manifestation of any of the risk factors in the Company's area of operations (as specified in Section 1.30 below).

Part III: Description of the Group's Business Affairs

1.9 The Structure of the Operating Segment and Changes Thereto

The Company engages in the area of retail trade by operating a chain of 'discount' stores in wide deployment throughout the country.

The Company's operating segment is characterized by high competition, changes in the variety of products in accordance with relevant season of the year and is also affected by consumer preferences with respect to some of the products carried by the Group's stores, such as children's products and home supplies.

In recent years, the operating segment has also been characterized by the establishment of additional nationwide chains offering products at convenient prices, both local chains, such as 'Zol Stock' (it has recently become known that the control of the chain was purchased by Yochananof) and 'The Stock' operating, as of the date of this Report, to the Company's best knowledge, between 20 to 50 branches each, and such as the 'Dan Deal' chain which consists of approximately 8 branches; and international chains, such as Daiso and Miniso, which consist, as of the date of this Report, of approximately 7 and 24 branches, respectively.

In addition, single stores and small local chains operate in the operating segment, consisting of between two to three branches, offering products similar to some of those offered by the Chain (for instance: stores offering diverse disposable tableware). These stores may also constitute local competition for the Group, with respect to a specific store of the Chain located nearby, if relevant.

In addition, the operating segment is characterized by a significant and constant growth in internet purchases, from local websites such as Stock Online, as well as from international websites, such as AliExpress, eBay and Amazon, which also offer a wide variety of products at convenient prices. These websites constantly improve the quality of their interfaces, shipping and services rendered to end-customers and, therefore, their rates and scopes of purchases are constantly growing.

Another trend which characterizes the operating segment is the increase in consumer awareness and the ability to compare prices quite easily. The Company estimates that this trend may lead to increased demand for the Chain's products, which offer a wide selection of good quality products at convenient prices.

On September 15, 2020, Fox Wizel Ltd. ("**Fox Group**") announced that it entered into an agreement according to which it received a franchise to operate the stores of the Greek

retail chain Jumbo and that it intended to open the first store by the end of 2021 (according to Fox Group's announcement) or by the end of 2022 (according to Jumbo's announcement).

As stated in this Section above, the Company is already operating in a very competitive market, consisting of many actors in each one of the categories of products sold by it. In view of the above and in view of the duration of time which is required to penetrate the market and establish a nationwide chain of stores similar to the chain operated by the Company, the Company assesses, that as of the date of the Report, the anticipated opening of Jumbo stores shall not have a material effect on the Company's operations.

1.10 **Critical Success Factors to the Sector and Changes Thereto**

The Company estimates that the critical success factors in its operating segment are as follows:

- The ability to adapt constantly the selection of products and prices to consumers' needs, preferences and changing fashion trends, keeping up with the latest innovations, anticipating fashion trends and frequent changes in the selection of products offered for sale;
- Offering products in diverse categories and a wide selection of products within each category;
- Offering products which provide good value for money;
- Broad nationwide deployment in accessible locations providing maximum exposure of the products to customers, thus building a powerful image and marketing strength; adjusting the size of the stores and their products to the environment in which they are located relative to other businesses and stores nearby, taking into consideration the population in the area and its needs;
- Supply-chain efficiency;
- Efficient procurement and pricing of products;
- Direct import of products by the Company to save costs, reduce dependencies on local suppliers, and increase the variety to the Chain's clients;
- Maintaining business relations which enable the Company to locate and engage with leading suppliers, and maintain long-term relations with such suppliers;
- Providing a shopping experience, including by constant diversification and renewal of

the products offered by the Chain's stores, maintaining "anchor products" alongside fashionable, frequently-changing products;

- Investing in and maintaining an advanced and efficient computerized system, rapidly adapting to changes in the branches.
- The Company's engagement with a significant portion of its store managers in a shareholders' agreement, setting out each store's operations, as well as the holding of shares in the Company which manages and operates the store, as described in Section 1.16.1.5 below. This unique kind of engagement establishes a close relationship and a sense loyalty of the managers to the stores and to the Chain, as well as contributes to their retention in the Chain.

1.11 **Changes in Suppliers for the Operating Segment**

Reduced customs rates on import in the last decade in certain areas have increased the number of supply sources available to many retailers operating in Israel, and, in fact, facilitated the establishment of stores offering diverse merchandise at attractive prices, including Max Chain, which to the Company's best knowledge, was a pioneer in this area.

The Company is constantly engaged in locating new suppliers, evaluating current suppliers and controlling the quality of the products supplied by them.

1.12 **Primary Barriers to Entry and Exit**

The Company estimates that the barriers to entry in the operating segment for the establishment of a single store are low, since the establishment of a single store does not require special resources. However, the transition from the operation of a single store or several stores in local deployment to the operation of a chain of stores in nationwide deployment requires: (1) financial strength – large capital is required to finance establishment costs, including: rent, infrastructure renovations and adaptation of the properties to the designated activity, employing a large team of employees, advertising and marketing costs, financing inventory, and more; (2) establishing relationships with suitable suppliers; and (3) large investments in infrastructure, information and logistic systems including an advanced distribution management system.

The Company estimates that the major barriers to exit in the area of operation are the high costs involved in closing-down stores (for instance, termination of the stores' leases and dismissal of employees involving severance pay) and stock clearance.

1.13 **Products**

The products offered at the Max Chain stores appeal to every family member – covering a wide range of ages for different purposes, including leisure, work, school, apparel basics, household works, home design and accessories, and more.

The Chain's stores offer the Group's customers different and diverse products of several categories, primarily consisting of office and school supplies, toys, disposable tableware and party supplies, housewares, arts & crafts supplies and fashion and sport products, as specified below:

1.13.1 Office and school supplies – this category targets institutional and private consumers and consists of indispensable office supplies, including binders, leaflets, copybooks, stationery, staplers, printer paper, organizers, and more. This category additionally consists of school supplies, which are sold throughout the year and mainly before the beginning of the school year, including school bags, copybooks, pencil cases, glues, rulers, scissors, binders, colors, markers, stationery, and more.

1.13.2 Toys and babies – this category appeals to children and infants and includes toys, dolls, board and mind games, puzzles, building bricks, books, toy musical instruments, clothing and textile for babies and more. This category includes products directly imported by the Company and products purchased from leading suppliers, including brands such as Disney and Marvel. The Company has expanded the range of products in this category starting in 2018. The Company's supply model, which includes direct import and purchase from local suppliers, allows it to respond quickly to a change in customer preferences and in the economy and to change the composition of its products in a category accordingly.

1.13.3 Disposable tableware and party supplies – this category includes all types of disposable tableware including plates, bowls, cutlery, cold & hot drink cups, aluminum and paper cooking & baking pans, tablecloths, napkins, and the like. In addition, the Chain sells a large variety of party and birthday products including presents, decorations, balloons, birthday bags and accessories in different designs and colors, birthday crowns, hats and other similar items.

1.13.4 Housewares – a wide category consisting of several categories, including kitchen supplies (including pots, pans, cookware and bakeware), home décor and accessories (which are not textile), large and small plastic, glass and wood containers, furniture, a large variety of cleaning products (cleaning materials, cloths, plastic bags, mops and brooms), bath products and more.

1.13.5 Arts & crafts supplies – this category offers consumers a wide selection of arts & crafts products including painting materials, plasticine, play-doh, a variety of sketch books, stationery and colors, glues, stickers, DIY art products, assembling kits and more. During 2019 and 2020, the Group's revenue from the products offered in this category accounted for approximately 7% and 7%, respectively, of all the Group's revenue.

1.13.6 Apparel Basics and textiles - this category includes jerseys, lingerie, basic shirts, swimwear, socks, curtains, rugs, towels, bedding, decorative pillows and more. During 2019 and 2020, the Group's revenue from the products offered in this category accounted for approximately 9% and 9% of all the Group's revenue, respectively.

For additional information regarding segmentation of revenues and profit of products, see Section 1.14 below.

In addition, the stores offer products in 25 additional categories, including: sports accessories, apparel, a variety of gifts, pet supplies, gardening tools and supplies, work tools, car products & accessories, cellular products, sea and inflatable products (sun umbrellas, pools and more), winter goods, hair & fashion accessories, pharm products and toiletries, outdoors products, threading and makeup products and other changing products. As of December 31, 2019 and December 31, 2020, the products offered from these additional categories accounted for approximately 23% and 21% of all the products offered by the Chain. The Chain is constantly working to develop additional categories and new selection that will match and serve its customers.

1.14 **Product Revenues and Profit Segmentation**

1.14.1 The following is data with respect to the revenues (as presented in the Financial Statements) from the Company's main product categories (including ratio of total revenues), whose rate constitutes/constituted 10% or more of the Company's total revenues from the Chain's stores for the years 2018, 2019 and 2020:

	2020		2019		2018	
	Revenues (NIS thousands)	**Rate of total Revenues from stores**	**Revenues (NIS thousands)**	**Rate of total Revenues from stores**	**Revenues (NIS thousands)**	**Rate of total Revenues from stores**
Office and school supplies	74,262	9%	72,568	10%	58,086	10%
Toys and babies	104,193	13%	85,570	12%	62,568	11%
Disposable tableware and party supplies	80,340	10%	73,316	11%	55,567	10%
Houseware products	231,686	28%	194,686	28%	142,856	25%
Total	**490,481**	**60%**	**426,140**	**61%**	**319,077**	**56%**

The gross profit from all of the Company's product groups is similar to the Group's general gross profit. For further details on the Company's gross profit in the reporting periods, see the Company's consolidated Financial Statements.

1.14.2 Below are details on the results of the Group's activities, segmented by the Group's stores:

		December 31, 2020	For the year ended	
			December 31, 2019	**December 31, 2018**
General data				
Number of owned branches		28 [9]	26	24
Gross commercial area (sqm)		45,783	40,561	35,928
Human capital	Branches	1,753	1,506	1,338
	Logistics center	74	46	45
	Administration and headquarters	84	73	55
Results of activities				
Cost of sold property	Fixed costs	16,614	3,734	-
	Variable costs	644,947	444,269	375,040
Rent	Fixed	33,418	30,062	30,452

[9] See footnote 1 above.

Variable	-	-	-
Capital investments in the branches	11,489	7,966	11,969
Total salary expenses attributed to retail activities	112,561	107,273	85,060
Data on proceeds and sales			
Income per sqm	18,903	17,118	15,851
Rate of change in revenue from same stores (%)	11% [10]	6%	1%

For details on changes in the Company's financial and operating indicators in the reporting periods, see Section 6 of the Board Report.

1.14.3 Below are details on changes in the results of the Company's activities relative to growth:

	For the year ended		
	December 31, 2020	**December 31, 2019**	**December 31, 2018**
Rate of change in commercial areas/sales floor	8.6%	12.8%	46.5%
Change of rate in same stores sales	11%	6%	1%

1.15 Customers

The Group's customers are the stores' end consumers.

The Company's estimates, on the basis of the Chain's large and loyal customer community, that many of the Chain's customers are repeat customers, who regularly visit its stores. The Group's customers are of all ages, but it estimates that the vast majority of the transactions in the Chain's stores are made by customers in the age range from 30 to 50 years old.

In 2020, the average expense of a customer per transaction at a large store increased in approximately 21%, and at a small store in approximately 23%, compared to the average total expense of a customer in one purchase in 2019.

For details regarding the sales method to private customers, see Section 1.23.3 below.

For details on protective equipment sale transactions to third parties in March-April 2020,

[10] Neutralizing the protective equipment transactions, as detailed in Section 1.27.6 below, the decrease mainly derives from the effect of the closing of the stores in March and April 2020, as the result of the spread of the Coronavirus.

see Note 1.D to the Company's Financial Statements.

The Company does not depend on any specific customer, the loss of which would materially affect its area of operation.

1.16 Marketing and Distribution

1.16.1 Marketing

1.16.1.1 The Company has a constantly-growing consumer base, mainly due to word-of-mouth advertising of the stores, made by the consumers themselves.

The Company has official website, Facebook and Instagram pages, where it publishes updates regarding products and new sales. Similarly, several unofficial Facebook and WhatsApp groups were opened by customers of the Group's stores without the Company's involvement. In these groups, the customers provide updates on recommended products, sales and new arrivals in the Chain's stores.

The following is data with respect to the Company's marketing channels:

- The company had approximately 1.6 million visits to its official website in the 12-month period until December 31, 2020, and approximately 1.3 visits in the 12-month period prior to the date of this Report.
- As of the date of this Report, the Company has approximately 155,000 followers on its official Instagram page, compared to approximately 37,000, 92,500 and 150,000 followers as of December 31, 2018, December 31, 2019 and December 31, 2020 (respectively).
- In the Company's official Facebook group, there are approximately 300,000 members as of the date of this Report, compared to approximately 216,000, 246,000 and 295,000 members as of December 31, 2018, December 31, 2019 and December 31, 2020 (respectively).

Hence, a wide and continuously-growing community of customers devoted to Max Chain was created. To the extent promotional activity

is required upon the opening of a new store or when the operations of an existing store need reinforcement, the Company carries out, in cooperation with the store's manager (as described below), marketing and promotional activities, as required and at its discretion.

1.16.1.2 As of the date of this Report, the Company does not usually use traditional marketing measures (billboards, newspapers, pamphlets, and the like). The Company examines, on an ongoing basis, the need to expand its marketing activities and their possible impact on growth in the Company's operations. As of the date of this Report, the Company markets its products to its customers through 50 stores in nationwide deployment. The stores are partly operated by. subsidiaries and partly by franchisees (as specified below). The table below describes the segmentation of the Chain's stores according to store types and the change over the years:

	Large store owned	**Small store owned**	**Large store franchised**	**Small store franchised**	**Total**
	Number of branches				
For year ended December 31, 2018	**24**	**-**	**8**	**14**	**46**
Opened in 2018	4	-	1	2	7
Converted to a different format in 2018	-	-	-	-	-
Closed in 2018	-	-	-	-	-
For year ended December 31, 2019	**24**	**2**	**7**	**14**	**47**
Opened in 2019	2	-	-	1	3
Converted to a different format in 2019	(2)	2	-	-	-
Closed in 2019	-	-	(1)	(1)	(2)
For period ended December 31, 2020	**27**[11]	**1**	**8**	**15**	**50**
Opened during 2020	3	-	-	-	3
Converted to different format in 2020	-	-	-	-	-
Closed in 2020	-	-	-	-	-

[11] See footnote 1 above.

Below is a summary of the number of stores divided into the Chain's store types (size and ownership):

Store Type	Stores operated by subsidiaries**				Stores operated by franchisees			
	On or about the date of this Report	As of December 31			On or about the date of this Report	As of December 31		
		2020	2019	2018		2020	2019	2018
Large stores	27	27	24	24	8	8	7	8
Small stores	1	1	2	-	14	15	14	14

* As of the date of this Report, the Company has entered into agreements (through its subsidiaries) for the opening of 4 stores during 2020 and 2021, one of which shall replace an existing branch and an additional store shall operate alongside an existing store in the same city.

** Of these stores, one large store and one small store are operated by indirect subsidiaries.

1.16.1.3 Below is a disclosure on the geographic spread of the Group's and the franchisees' stores:

Region	Owned branches / franchisees	Number of stores		
		For the year ended		
		December 31, 2020	December 31, 2019	December 31, 2018
North	Owned	8	8	8
	Franchisees	7	7	7
Jerusalem and its surroundings	Owned	5	4	4
	Franchisees	2	1	1
Center	Owned	8	7	6
	Franchisees	13	13	13
South	Owned	7	7	6
	Franchisees	-	-	1

* Excluding the Dimona Branch, which was closed at the end of November 2020, and is expected to re-open in a new and larger location in the beginning of Q2 2021.

1.16.1.4 As of December 31, 2018, 2019, and 2020 and as of the date of this Report, there are no owned stores constituting (each one separately) a rate of more than 10% of the revenues or profit of the Company. Additionally, as of December 31, 2018, 2019, and 2020 and as of the date of this Report, all the stores operated by franchisees do not constitute together more than 10% of the revenues or profit of the Company.

1.16.1.5 Stores operated by subsidiaries

As of the date of this Report, the Group operates 28 stores – 26 stores through subsidiaries and two through indirect subsidiaries. The majority of the Group's revenues derives from large stores, which are operated by subsidiaries. According to the Company's business model, the shares of each subsidiary are held by a store manager (most of them in rates ranging between 10% to 30%) and by the Company (the remaining shares). The Company enters into a shareholder's agreement with each store manager regulating the shareholding and the store's operation (with respect to each store: the **"Partner**" and the "**Shareholders Agreement**", respectively). As of the date of this Report, approximately 24 Partners manage the Chain's stores in accordance with this model.

In general, according to the Shareholders Agreements, the Board of Directors of the subsidiary, consisting of a board member appointed by the Company, establishes the policy, budget, and manner of management of the store, while the current operation of the store, including the employment and layoff of employees, is carried out by the Partner, according to the Chain's guidelines and procedures. The subsidiaries may purchase the merchandise sold in their stores according to Company's guidelines concerning product diversity, solely from the Company or suppliers approved by it and in accordance with the prices determined by the Company. In the framework of the Shareholders Agreement, the Company provides to the subsidiary consultation services and the right to use the brand

name relevant to the store, in consideration for a 2.5% fixed-rate commission from the store's sales turnover. As of the date of this Report, the vast majority of Max Chain's large stores are operated by subsidiaries. Upon the occurrence of one or more of the events set in the Shareholders Agreement (including the dismissal of the Partner as the store manager or material disagreements regarding the management of the store), the Company may, at its sole discretion and without the consent of the Partner, acquire the Partner's share in the relevant subsidiary, in part or in whole, for the consideration calculated in accordance with the mechanism set in the Shareholders Agreement. The Partners are managers in the Chain (with an average seniority of approximately 7 years) who were promoted to such status.

In the Company's opinion, the described model allows it to align the align interests of the manager and the Company, to attract quality personnel and to save on managerial resources, while creating a connection of the manager with the store and its customers.

During 2020, the Company engaged with some of the Partners in addendums to the Shareholders' Agreements, which entitle the Company to an option to purchase the Partners' entire share, according to a predetermined formula, without requiring their consent. Generally, such purchase will be made in exchange for consideration equal to an agreed multiplier between the parties multiplied by the manager's holding rate in the issued share capital of the subsidiary and by its net profit in accordance with its most recent audited Financial Statements as of the date of exercising of the option. Purchasing the manager's share will not stop the operation of the store by the Company (through its subsidiary).

1.16.1.6 <u>Stores operated by franchisees</u>

As of the date of this Report, 22 stores in the Max Chain are operated through franchisees, 8 stores operate under the brand "Max – Here It's Fun to Shop" and the rest of the stores operate under the brand "Max20". The Company enters into a specifically-targeted agreement with each franchisee, in the framework of which it grants the franchisee the right to use the brand name relevant to the store, generally in consideration for a one-time payment of franchise fees

and current commission at a fixed rate of approximately 3%, on average, from the store's sales turnover, plus VAT at the lawful rate.

The vast majority of the franchise agreements entered into by the Company are for an initial five-year period. Some agreements may be extended for additional terms of one to five years each. A small part of the franchise agreements entered into by the Company are for unlimited periods of time. In most agreements as mentioned above, the Company may decrease the franchise term by written notice if the franchisee breaches the agreement. The Company also has the right to terminate each agreement within 14 days from the date of its notice in writing to the franchisee, upon the occurrence of the events specified in the agreement, including breach of franchisee's undertakings towards the Company, such as failure to make payments according to the provisions of the agreement. In addition, in most of the Company's agreements which include an option to extend the franchise period, each party may provide a notice in advance regarding its will not to extend such period. Similarly, in most franchise agreements, the franchisee undertakes towards the Company not to compete with its business affairs throughout the franchise term and for a period of two years thereafter. In addition to the above, the franchise agreements regulate the store's operation, while each store is managed by the franchisee, mostly through an SPV for the store, according to the Chain's guidelines and procedure. In this context, in most of the agreements, the franchisee is responsible, *inter alia*, for the store's financial management, obtaining the permits and licenses required for the opening of the store, insurance maintenance and employment of employees for its operation. In addition, the franchisee is required to provide guarantees to secure its obligations under the agreement. The franchisee undertakes to purchase the products from the Company or suppliers approved by it. The types of products, the final price of the product to the customer and the terms of payment to suppliers – are all established in advance by the Company. The Company usually sells its products to all of the Chain's stores (including stores operated by subsidiaries) at similar prices. As of the date of this Report, the vast majority of the small stores of Max Chain are operated by franchisees.

The Company's revenues from franchisees consist of the purchase of goods by the franchisee as well as a fixed commission out of the sales turnover of the store it operates. This revenue, from all the stores operated by franchisees, is below 10% of all the revenue or profit of the Company from its area of activity. In the Company's estimate, the primary exposures to the Company that may result from the engagement with the franchisees are a risk of damage to goodwill and risk of nonpayment on the due date of the commission and purchase of the goods. In the Company's estimates, these risks are low, since the agreements with the franchisees include the provision of security interests by the franchisees and liquidated damages in case of violation of the agreement, as well as the possibility of termination by the Company at short notice.

1.16.2 **Distribution**

As of the date of this Report, products imported by the Company are received, stored and distributed to the Chain's stores (both stores operated by subsidiaries, and by franchisees) through the Company's logistic centers. The major centers are located in Caesarea and Or Akiva. The vast majority of the containers imported directly by the Group from suppliers abroad are processed in the logistic centers in Caesarea. The logistic centers were adapted to the Company's needs in a bid to support the rapid pace of sales and inventory turnover of the Group's chain of stores. Distribution from the logistic centers to the Group's stores is made through external distributors engaged by the Company. As of the date of this Report, the Company does not depend on these distributors.

Products purchased from local suppliers, in most cases, are distributed to the Group's stores by the suppliers themselves.

1.17 **Competition**

The Company operates in an extremely competitive market consisting of many players in each one of the product categories that are sold by the Company. In light of the many different product categories amongst them and given the large product selection in each category offered by the Company, the Company has numerous and diverse local competitors:

- **In the houseware category (kitchen supplies, textile, storage and decorative products, household tools, work tools and the like)**, the Company's competitors

include Home Center, ACE, Fox Home, Golf & Co., IKEA and the grocery chains such as Shufersal, Mega and others which offer products in these categories.

- **In the office and school supplies and arts & crafts products categories**, the Company competes, *inter alia*, with chains such as Kravitz and Happening, and independent stores selling office and arts & crafts supplies mostly operating in city centers.

- **In the disposable tableware and party supplies categories**, the Company's competitors include chains such as Peamit Store, Hillula, and more, and the abovementioned grocery chains.

- **In the toys and baby category**, the Company's competitors include chains such as Toys R Us, Kfar HaSha'ashuim, the Red Pirate, Happening, Idan 2000 and the like.

- • In the apparel basics and textiles category, the Company competes, *inter-alia*, with chains such as "Fox", Golf & Co., food chains and apparel basics chains such as B Good, Hangar and more.

Additional discount stores operate in Israel, including the "Stock" chain and the "Zol Stock" chain (it has recently become known that the control of the chain was purchased by Yochananof); however, the Company estimates that, in general, the selection and types of products offered by them are smaller than the selection offered in the Chain's stores and that their store deployment is more limited. Therefore, the Company estimates that the competition with the said chains is limited mainly to specific areas and to products in the categories of houseware products, disposable tableware and party supplies.

In 2020, the trend of increasing competition characterized in recent years has continued, mainly in the field of retail sales of houseware products (including kitchen supplies, decorative products, furniture and more), toys, work tools, apparel and textile.

The competition described above affects the demand of Company's customers for its products and may affect the Group's financial position and results accordingly.

In addition to the local competitors as described above, in 2018, the Daiso and Miniso chains entered the Israeli market. These chains also offer products at convenient prices in the categories of household supplies, textile, stationery and toys. As of the date of this Report, the opening of said stores had no material impact on the demand for Company's products, due to the fact that in addition to the limited number of stores operated by these chains in Israel (up to only 7 and 24 stores, respectively), these are relatively small stores,

with limited selection, operating in different types of locations (usually in shopping malls), and accordingly targeting different clientele.

Shortly after the publication of the Company's Prospectus, it was published in the media and in TASE notices made by Fox Wizel Ltd. (hereinafter: "**Fox Group**") in September and November 2020, that Fox Group entered into an agreement according to which it received a franchise to operate the stores of the Greek retail chain Jumbo and that it intended to open the first store by the end of 2021 (according to Fox Group's announcement) or by the end of 2022 (according to Jumbo's announcement).

Currently, the Company is already operating in a very competitive market, consisting of many actors in each one of the categories of products sold by it. In view of the above and in view of the duration of time which is required to penetrate the market and establish a nationwide chain of stores similar to the chain operated by Max Chain (consisting, as of the date of this Report, 50 branches throughout Israel), the Company assesses, that as of the date of the Report, the above shall not have a material effect on the Company's operations. For additional details see the Company's immediate report dated September 21, 2020 (Reference No. 2020-01-103125).

In addition, the Company is exposed to online competition from both local and overseas competitors, such as Stock Online and Amazon, eBay, AliExpress, and others. Some of the international sites have extensive sales activity in Israel. In September 2019, Amazon, which operates an international online commerce platform, launched Amazon Israel's activity, starting a direct sales operation in Israel.[12] The Company's advantage compared to other competitors of this type is the immediate accessibility and availability of the Chain's stores (as opposed to an online order involving a waiting period), and a similar price range.

1.18 Seasonality

The Company's operations are sensitive to seasonal fluctuations in terms of management strategy, marketing and sales, to the extent relevant and affecting the nature and features of products being sold. For instance, in the months of July-August (shortly before the beginning of the school year) the scope of sales of school supplies and toys increase. During the Jewish New Year (*Tishrei)* Holidays and over Passover, there is a sharp increase in the toy and home gift sales. Another typical increase over Passover (including *Chol HaMoed* and Israel's Independence Day) is observed in the sales of disposable plastic

[12] https://www.themarker.com/consumer/1.7859816

products, tablecloths, and tableware. Between the months of April and August, the scope of pool and sea accessories and inflatables sales increases. Apparel and textiles are obviously sensitive to the changing of the seasons and weather. However, the scope of the furniture, decorative items and gifts, cleaning products, kitchen and baking supplies and work tools department sales is relatively stable throughout the year.

In addition, great sensitivity and attention are given to trends in consumer preferences in Israel and worldwide, as specified in Section 1.31.9 below.

The table below conveys the segmentation of the Group's sales based on quarters for 2018 to 2020 (in percentages):

Year	Q1	Q2	Q3	Q4
2020	20%	20%	30%	30%
2019	24%	24%	28%	24%

1.19 **Fixed Property, Land and Facilities**

The Company does not own real estate properties and its operations (Company's headquarters, warehouses and stores), are carried out on properties leased by it.

The net balance of fixed property, as of December 31, 2019, and December 31, 2020 is approximately NIS 38,153 thousand, and approximately NIS 47,328 thousand, respectively. For further details and information with respect to the depreciated cost of the Company's fixed property, see Note 9 to the Financial Statements.

The following is a description of the substantial leases to which the Group is a party:

1.19.1 **The Chain's stores** – As of the date of the date of this Report, the Group's Chain consists of 50 stores, of which 28 stores are operated by the Company's subsidiaries and indirect subsidiaries and 22 stores are operated by franchisees.

The stores operated by subsidiaries are mostly situated in independent locations[13] in city centers and commercial areas. The vast majority of these stores are large stores, covering an average area of approximately 1,800 commercial square meters per store. The Chain's small stores have an average area of approximately 200 square meters of commercial space per store, and are usually operated by franchisees.

[13] That is, locations that are not in malls or shopping centers.

In general, the Company and its subsidiaries are not a party to the lease agreements with respect to the stores operated by franchisees. The franchisees engage directly with the lessors in these agreements.

The lease agreements with respect to stores operated by subsidiaries - Typically, the subsidiary operating the store enters a lease directly with the lessor, while the Company guarantees its obligations. In some leases, the Company has the right to step into the shoes of the subsidiary. The rent paid by the subsidiaries is fixed and linked to the index. For some branches, the rent is increased over the passage of time by a certain percentage. The average initial lease period under the leases that the Group engaged in is four years, and in most agreements there is an option for the subsidiary to extend the initial period for additional periods, and for a similar duration. The average option period in all lease agreements that the Group engaged in, which are in effect as of the date of this Report, is approximately 4 years. As of the date of this Report, and to the best of the Company's knowledge, there are no material lease agreements with respect to the Chain's stores that are expected to end in the upcoming two years, excluding a lease agreement with respect to the Chain's store operated by Max Rishon Ltd., as the Company has engaged under a lease agreement at the new location in which a flagship branch of approximately 4,000 sqm is expected to open by the end of Q2 – beginning of Q3, 2021.

The subsidiaries may terminate the leases in different ways which vary from one agreement to the other. The following are the main provisions of the lease agreements:

- Some leases may be terminated by advance written notice ranging between three to twelve months;
- Some of the lease agreements are renewed automatically at the end of the lease period, unless either one of the parties to the agreement gives notice to the other party that it does not wish to extend the lease period. The notice should be given between three to nine months before the end of the lease period;
- According to some agreements, predetermined liquidated damages are payable due to the termination of the agreement before the end of the lease period.

- Some agreements do not include any provision regarding the possibility to terminate during the term of the engagement.

The Chain's franchisees enter leases in connection with the space of the store operated by them independently, and bear the entire liability arising from any such agreement. Moreover, each franchisee undertakes to indemnify the Company in the event that any costs arising from the breach of the lease entered into by the franchisee are imposed on the Company. In addition, most franchisees undertake towards the Company to include in the lease an express provision establishing the Company's right to step into their shoes in the event that the franchise is revoked or terminated before the end of the lease period.

Rent for the Chain's stores operated by the Company's subsidiaries, which was paid by the subsidiaries as they appear in the Company's consolidated Financial Statements amounted in the years 2019 and 2020 to approximately NIS 30,062 thousands and NIS 33,418 thousands, respectively. For details regarding guarantees provided by the Company (itself or through its subsidiaries) to secure its obligations and the obligations of its subsidiaries as stipulated in the lease agreements as stated above, see Section 1.24.5 below.

Below is a segmentation of monthly lease and option data for the properties leased by the Company:

Duration until termination of contract	**As of December 31, 2020**	
	Number of branches	**Monthly rent (NIS)**
No option		
Up to one year	10	1,142,937
Between 1 and 5 years	16	2,251,380
Between 5 and 10 years	2	165,000
Upon exercise of an option		
Between 1 and 5 years	9	1,015,706
Between 5 and 10 years	12	1,871,048
Between 10 and 15 years	3	529,044

As of December 31 for the years 2018, 2019, and 2020, and as of the date of this Report, there are no owned stores that constitute (each one separately) more than 10% of the revenue or profit of the Company.

1.19.2 **Company's Headquarters and the Main Logistics Center** – As of the beginning of 2018 (in accordance with an agreement signed on April 10, 2016), the Company's operations are managed from its offices located in the Caesarea North Industrial Park, which, together with its warehouses, cover an area of approximately 15,000 square meters, of which an area of approximately 8,200 square meters serves as a logistics center (the "**Logistics Center**"), an area of approximately 950 square meters serves as offices and approximately 5,850 square meters of open area designated for tenant's (the Company) use only. The lease is for a period of ten years commencing from August 15, 2017 with an option to extend the period for an additional ten years. In addition, after the passage of 36 months from the commencement of the lease, the Company shall be entitled to terminate the lease by giving 12 months' prior notice. Finally, after the passage of 48 months from the commencement of the lease, the Company shall be entitled to terminate the lease by providing six months' prior notice. It was further stipulated that the Company will pay services fees and management fees to the company managing the business park in which the Logistics Center is located, as well as additional payments in connection with its maintenance, as long as the lease agreement is in effect.

In addition, in November 2019, the Company entered into a lease agreement with respect to an additional site of 13,300 square meters close to its offices. Out of the total area leased by the Company, an area of 7,060 square meters will be used as a warehouse, an area of 1,420 square meters will be used as a gallery and 4,820 square meters is an open area. The first lease period will end on February 16, 2025 and will automatically be extended for three additional periods of 5 years each (the "**Additional Lease Periods**") subject to the terms of the lease agreement. The Company may terminate the lease agreement at the end of the lease period or at the end of any of the Additional Lease Periods by providing a notice six months prior to the termination of the relevant period. It was further stipulated that the Company will pay services fees and management fees to the company managing the business park in which the Logistics Center is located, as well as additional payments in connection with its maintenance, as long as the lease agreement is in effect. In the framework of the agreement, the Company provided a guarantee to secure its obligations under the lease agreement.

For additional details regarding the said lease agreements see Note 10(D) to the Financial Statements.

1.19.3 **Or Akiva Logistics Center**

The Company rents two sites in Or Akiva, which serve as logistics centers, as specified below:

1.19.3.1 A Logistics Center covering an area of approximately 4,300 square meters, in a lot of approximately 7,300 square meters in the Or Akiva North Industrial Park. The Company has been leasing the premises as of February 7, 2016. The current lease period ends on August 6, 2021. The Company may not terminate the lease before the end of lease period.

1.19.3.2 A Logistics Center covering an area of approximately 2,800 square meters, and a loading and unloading area of approximately 500 square meters, in Or Akiva. The lease period for such Logistic Center is from January 1, 2018 through December 31, 2020. The agreement allows to extend the lease period, for two additional periods of three years each, which shall enter into effect automatically, subject to the fulfillment of the conditions stipulated in the lease agreements. The Company may terminate the lease agreement in the end of each of the lease periods by providing a prior notice 120 days before the end of the relevant lease period. As of the date of this Report the lease period was extended until December 31, 2023.

The rent paid by the Company for its offices and Logistics Centers amounted in the years 2019 and 2020 to approximately NIS 5,759 thousands, and NIS 7,992 thousands, respectively. As of December 31, 2019, and December 31, 2020, the total amount of guarantees provided by the Company for securing its obligations under the lease agreements was approximately NIS 10,104 thousands and NIS 12,592 thousands, respectively.

1.20 **Intangible Assets**

As of the date of this Report, the Company has twenty-one registered trademarks in Israel, including the “Max - Here It’s Fun to Shop”, “Max 20”, which are the Chain's brand names. The Company owns and uses additional trademarks including “Bubale”, “Max Home”, "Max Kitchen", "Max Garden" and more. In addition, the Company has three registered trademarks in the United Kingdom for “Max”, “Max5” and “Max Stock”.

In August 2019, the Company filed applications for the registration of 18 additional trademarks in Israel, referring to different Chain categories such as Max Kitchen, Max Home, Max Toys and more. As of this date, of the applications filed, fifteen (15)

trademarks were registered, two were received, one was closed and renounced at the request of the Company. In addition, the Company filed two additional trademark applications in September 2019, of which one was filed following an application which had been filed in August 2019 and was received (the mark "Max Electric"), and an additional application currently under review. In addition, another trademark registration application was filed in March 2020, which was renounced by the Company and was closed. The Company awaits completion of the process with respect to the trademarks which were received and which are under review as aforesaid. In addition, the Company filed applications for the registration of three international trademarks in the European Union, the United Kingdom and the United States, referring to the names “Max”, “Max5” and “Max Stock”. As of this date, said trademarks were registered in the United Kingdom as specified above, and in the European Union. The trademark "Max5" was received and awaits objections in the United States, while the two additional marks await registration approval in the United States.

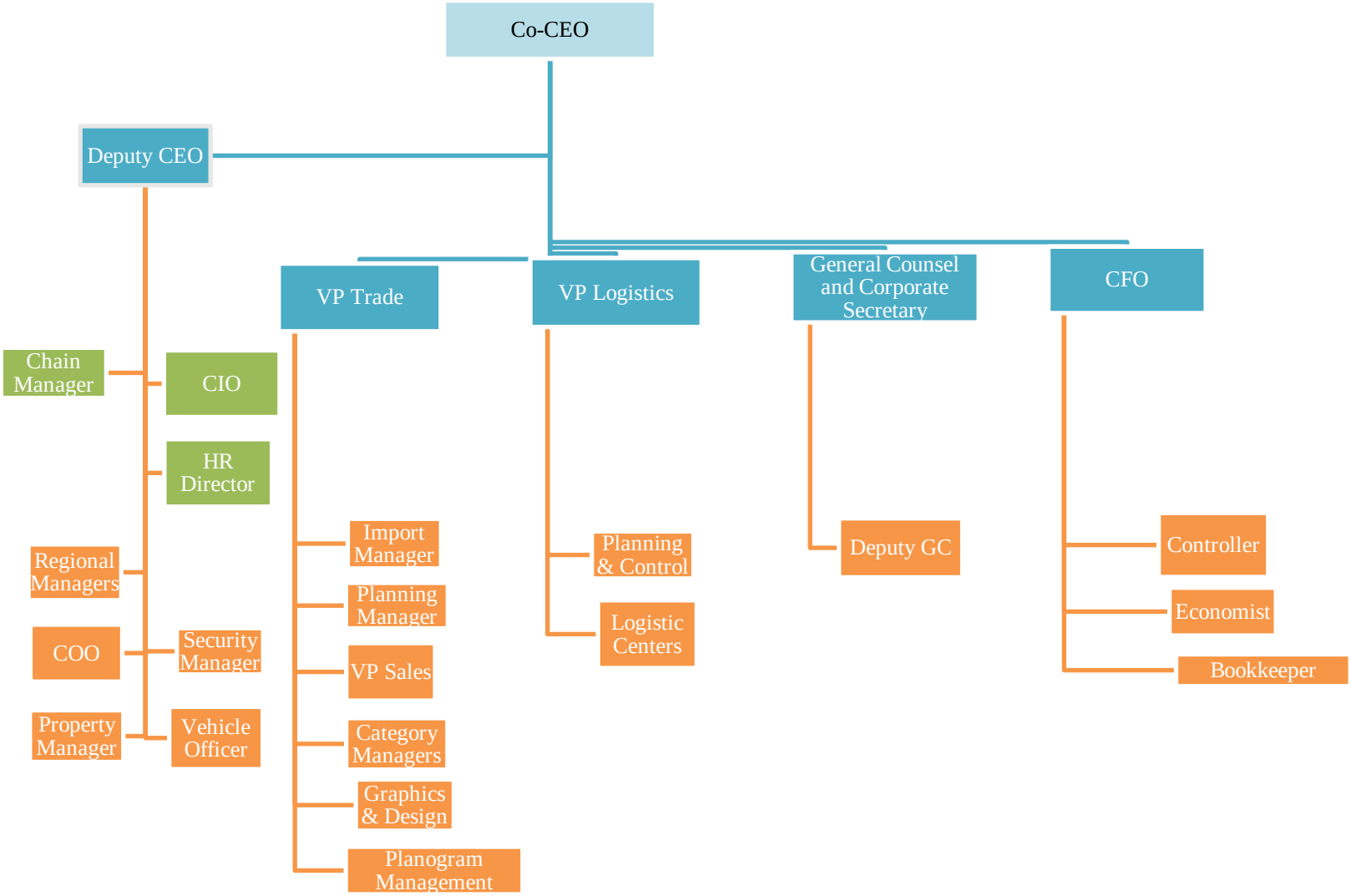
In February 2019, the Company filed objections to the Registrar of Trademarks in connection with an application for the registration of trademarks filed by a third party. Meanwhile, the same third party filed an objection for two applications for the registration of trademarks filed by the Company, related to the design of the Company’s gift cards. On May 25, 2020, the parties have reached a settlement agreement regarding the use of the trademarks of each of the parties, the mutual objections have been removed, and the trademarks of the company have been registered.

According to its needs, the Company files, from time to time, applications for the registration of trademarks and for the extension of the validity of the already-registered trademarks.

The abovementioned trademarks, which include the vast majority of the Group’s brand names, constitute an important intangible asset of the Group, creating store differentiation, giving the stores a unique identity and added value compared to the stores of the Group’s competitors.

1.21 **Human Capital**

1.21.1 The following is a description of the organizational structure of the Group as of the date of this Report:



1.21.2 Employees

As of the date of this Report, as of December 31, 2020 and as of December 31 2019, the Group had 1,744, 1,911 and 1,625 employees, respectively. In addition, the Company often uses the services of human resources companies for an initial employment of employees. Following an initial work period of approximately three months, these employees are absorbed by the Company and are employed directly by it.

The following is a detailed description of the number of employees employed by the Group (in terms of positions), as of the date of this Report and as of December 31 of the years 2019 and 2020[14]:

Department/area of operation	As of the date of this Report	As of December 31, 2020	As of December 31, 2019
Management & Headquarters*	84	84	73
Logistic Centers*	92	74	46
Store Managers and Employees**	1,568	1,753	1,506
Total	1,744	1,911	1,625

* Company employees.

** Subsidiary employees.

1.21.3 Material changes in employees during the period described in this Report

During the period described in this Report, the Company's workforce had increased due to an expansion in the Company's operations across Israel, including the opening new branches.

Notwithstanding, it should be noted that the decline in the Chain's employees from the end of 2020 until the publication date of the report was caused by employees leaving during the shutdowns imposed by the Israeli government in response to COVID-19, the Company assesses that the unemployment payments which are being made until June 2021 had an impact on the employees' desire to return to the workforce.

[14] The franchisees with who the Group works and the employees of the stores operated by franchisees are not included in the number of employees presented in this section.

1.21.4 Dependence on employees

Mr. Ori Max, the Company's founder, co-CEO and shareholder, is the Company's key person. The Company estimates that if Mr. Max ceases working with the Company, it may affect its results and business development.

1.21.5 Description of the employee remuneration plan

1.21.5.1 For details on the Company's Option Plan (non-tradable), whereby the Company's Board of Directors shall be allowed to issue non-tradable options to employees, directors and consultants in the Company and in the subsidiaries, see Section 3.3 of Chapter 3 of the Prospectus. For additional details see Section 3.3.7 in Chapter 3 of the Prospectus (the "**Option Plan**").

On November 29, 2020, the Company's Board of Directors resolved to approve the issue of 2,320,964 options (non-tradable) under the Option Plan exercisable into up to 2,320,964 shares to 27 employees and office holders of the Company and one director. The Company's Board of Directors resolved that notwithstanding the provisions of the remuneration policy regarding the first exercise date after 12 months, the first exercise date of the options (fully or pro-rata, according to the distribution of the portions over the vesting period), shall be after 24 months, namely in September 2022. For further details see the Company's immediate reports dated November 30, 2020 (Reference No.: 2020-01-129789 and 2020-01-130497) and note 19 to the Financial Statements.

1.21.5.2 For details regarding the remuneration policy for office holders adopted by the Company after the closing of the tender offer under the Prospectus, see section 8.3 to chapter 8 of the Prospectus.

1.21.6 Bonuses and nature of employment terms & conditions

The vast majority of the Company's employees receive minimum hourly wage and all of its employees are entitled to social benefits according to the law. Store managers, management and headquarter employees (including the Logistics Centers' employees) are employed under personal employment agreements, receive a global monthly salary and the terms of their employment are established following individual negotiations, based on several parameters,

including the position, the employee's skills, seniority, professional ability and Company's needs.

As of the date of this Report, there are no collective labor relations between the Company and its employees.

1.21.7 Employment of employees with disabilities

According to the provisions of the Equal Rights for Persons with Disabilities Law, 5758-1998, every employer employing more than 25 employees (other than the exceptions specified in the law itself), must act for proper representation of persons with disabilities.

On September 21, 2014, the Minister of Economy and Industry signed an extension order for the encouragement and increase of employment of persons with disabilities, expanding the provisions of the general collective agreement signed between the Presidency of Business Organizations and the New General Workers Federation, Trade Union Division on June 25, 2014 (the "**Extension Order**"). The Extension Order applies to employers employing 100 or more employees and provides that "proper representation" for persons with disabilities requires that 3% of the employer's employees are persons with disabilities. The Extension Order also provides that employers employing 100 or more employees are required to appoint a person in charge of the employment of persons with disabilities. On October 1, 2015, the joint follow-up committee of the Presidency of Business Organizations and the New General Workers Federation published a decision regarding operational provisions for the implementation of the collective agreement for the encouragement of employment of persons with disabilities and the Extension Order issued thereunder.

The Company has a policy of employing persons with disabilities and as of the date of this Report, the Company engages persons with disabilities at a significantly higher rate than the rate required by law, which is estimated at approximately 5% of the Group's employees.

1.21.8 Investments in training, instruction and human capital development

The Company conducts training for its employees, as needed from time to time, depending on the nature of the job and the rank of the employee.

1.22 **Suppliers**

The Group purchases approximately 50% of its products as finished products directly from suppliers abroad, the vast majority of which are from suppliers located in the far east. At the same time, the Company maintains a local set of suppliers, who make the overseas purchases). It shall be noted that in recent months, due to the Coronavirus outbreak, the Company has increased the volume of purchases from additional suppliers located outside of the far east, while simultaneously continuing to purchase from suppliers in the far east. For details regarding the effects of the coronavirus outbreak on the Company's operations, see Section 1.3 of the Board Report.

The Company enters into commercial agreements with its local suppliers, whereby the supplier makes the following commitments to the Company: (1) not to supply to the Chain's stores merchandise which was not approved by the Company; (2) to pay the Company commission at a 2% fixed rate from the scope of its sales to the Chain's stores; (3) that it has all the authorizations and/or the permits and/or the licenses to supply the products to the Chain stores and that the products supplied by it do not violate any rights, including intellectual property rights; and (4) that it holds full responsibility for the products provided by it and shall indemnify the Company for any demand and/or claim related to the products supplied by it, including a breach of subsection (3). The merchandise is actually purchased from the suppliers by renewed purchase orders. Approximately 50% of the Group's suppliers use an electronic system (EDI), which allows typing the ordered goods to the Company's inventory immediately upon order.

Among the suppliers as stated above, the Company purchases merchandise in quantities of up to approximately 20% of its total purchases from a supplier in China[15], which has been acting as the Company's supplier for more than ten years. It should be noted that the Company's purchases from any of its other suppliers do not exceed such rate. In addition, the Company's purchases from any local supplier (in Israel) do not exceed 20% of all purchases from local suppliers. The Company estimates that it is not dependent on any of its suppliers, including the supplier from China, since it can replace them without causing substantial harm to the Company in the short to medium run.

1.23 **Working Capital**

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[15] The supplier acts as a "Trader" for the Company, coordinating all of the Company's purchases from different suppliers in China. The payment is made directly to such supplier, who engages with suppliers/products manufacturers from China.

The Company's working capital consists mainly of inventory, customer credit and supplier credit, as specified below:

1.23.1 Inventory

The quantity of products held by the Company in stock is determined based on past experience of product sales (considering, *inter alia*, the seasonality factor), the Company's forecast of future sales, and according to the minimum purchase requirements from suppliers. The average inventory days for the years 2020 and 2019 were 77 and 72 days, respectively.

1.23.2 Product return policy

According to the provisions of the Consumer Protection Law, 5741-1981 and the Consumer Protection Regulations (Cancelation of Transaction), 5771-2010, the Company gives refunds in cash or credit, according to the means of payment used to make the purchase, on such dates and terms set forth in the regulations. The Company does not charge cancelation fees for transactions canceled by customers, save for clearance fees for the cancelation of credit card transactions. With respect to products for which customers are not entitled to refunds under applicable law, the Chain enables their return against store credit or their replacement with another product within 14 days from their date of purchase. The Group allows product returns and receipt of refunds or credit, as the case may be, only in stores of the same type in which they were purchased (Max - Here it's Fun to Shop or Max 20, as applicable) and according to applicable law.

1.23.3 Supplier and customer credit

1.23.3.1 Customer credit – the vast majority of the Company's sales are made to private customers, against cash and credit card charges. According to the Company's clearance arrangements, proceeds of sales made by credit cards are transferred to the Company every 2nd and 8th day of the month preceding. The vast majority of sales are made by credit cards. The average customer credit is approximately 20 days.

1.23.3.2 Suppliers' credit – the Company receives credit from its suppliers for variable periods according to its agreements with the different suppliers, the vast majority of which are under terms of current plus up to 60 days. The average scope of suppliers' credit to the Company in 2019 and 2020 amounted to approximately NIS 45 million and

approximately NIS 75 million, respectively. The average customers' credit days in 2020 was 61 days, compared to 40 days in 2019.

1.24 **Finance**

1.24.1 General

The Company finances its operations mainly from its own resources and by taking loans from banking institutions, with each subsidiary taking a loan for the purpose of financing its own operations. In addition, the Company took loans from banking institutions, as specified below:

a. On January 19, 2017, the Company took a loan in an aggregate amount of NIS 20 million (without linkage) from a banking institution. The principal amount of the loan bears variable interest at a rate of Prime plus a margin of 0.7% per annum, repaid in 48 monthly installments of principal and interest, until its full repayment on January 25, 2021.

b. On June 30, 2019, the Company took an additional loan from same banking institution in an aggregate amount of NIS 20 million (without linkage). The loan bears variable interest at a rate of Prime plus a margin of 0.23% per annum, repaid in 48 monthly consecutive installments commencing from July 25, 2019 until June 25, 2023.

c. On January 30, 2020, the Company took an additional loan in an amount of NIS 8 million (without linkage) from said banking institution. The loan principal bears variable interest at a rate of Prime plus a margin of 0.23% per annum, repaid in 48 monthly installments of principal and interest, until its full repayment on January 25, 2024.

d. On March 18, 2020, the Company took an additional short-term loan in an amount of NIS 10 million (without linkage) from an additional banking institution, in order to preserve financial flexibility during the period of the Coronavirus crisis. The loan principal bears variable interest at a rate of Prime plus a margin of 0.8% per annum, with repayment until December 31, 2020. In practice, no use of this loan has been made, and it was deposited in a short-term deposit. In December 2020, the loan was fully repaid.

e. On March 19, 2020, the Company took an additional short-term loan in an amount of NIS 30 million (without linkage) from an additional banking

institution, in order to preserve financial flexibility during the period of the Coronavirus crisis. The loan principal bears variable interest at a rate of Prime plus a margin of 0.5% per annum, renewed monthly, and for a period ending September 30, 2020. In practice, no use of this loan has been made, and it was deposited in a short-term deposit. In December 2020, the loan was fully repaid.

For details regarding the guarantees and pledges provided by the Company to secure loans from the Banking Institution see Note 15 to the Financial Statements.

1.24.2 As of December 31, 2019 and 2020, and on or about the date of this Report, the outstanding balance of the loans (including current maturities) totals approximately NIS 36,546 thousand, approximately NIS 36,054 thousand, and approximately NIS 45,532 thousand, respectively.

1.24.3 Average and Effective Interest Rate

The rates of the average and effective interest on outstanding loans in 2019-2020, which were not designated by the Company for a specific use, were as follows:

	2020	**2019**
	Average interest rate[16]	
NIS long term bank loans	2.01%	2%
NIS short term bank loans	2.3%	-

1.24.4 Restrictions in Procuring Credit

As of the date of this Report, the Company is not obligated to satisfy any financial covenants under the loan agreements.

1.24.5 Guarantees and pledges

For details regarding the provision of guarantees by the Company to third parties, including banks and lessors, to secure the obligations of the Company and its subsidiaries, see note 15 to the Financial Statements.

[16] Approximately the effective interest rate.

For details regarding the removal of personal guarantees by two of Company's shareholders for long-term loans given to the Group by a banking cooperation, including with respect to the provision of a fixed floating charge on the Company's assets to a banking institution in exchange for such guarantees and the removal thereof, see note 15 to the Financial Statements.

1.24.6 Group's estimate concerning the need to raise funds from additional sources

As of the date of this Report, the Company estimates that, next year it shall not be required to raise additional sources to cover its current business operations.

1.25 Taxation

For details regarding the tax laws applicable to the Group and the Group's tax assessments, see note 27 to the Financial Statements.

1.26 Limitations and Control Applicable to the Company's Operations

The Company's operations are subject to the provisions of the general law, including laws on import and customs, standardization, consumer protection, accessibility, intellectual property rights, labor laws, environmental laws and business licensing.

1.26.1 Business Licensing Law, 5728-1968 (the "Business Licensing Law")

According to the Business Licensing Law, a business license is required for the operation of some of the Chain's stores. Criminal sanctions (imprisonment or fine) are established by the Business Licensing Law against anyone operating a business which requires a license without a license. As of the date of this Report, the vast majority of the Chain's stores, which require a business license to operate, are licensed, as aforesaid, and the Group acts to obtain business licenses for the other stores, which are new stores currently in the process of obtaining a business license.

1.26.2 Relevant Labor Law provisions

The Group is subject to Israeli labor laws in connection with the employment of the Group's employees, including the Minimum Wage Law, 5747-1987 and the regulations promulgated thereto (hereinafter jointly referred to as: the "**Minimum Wage Law**"), Severance Pay Law, 5723-1963, Annual Leave Law, 5711-1951, Work Rest & Hours Law, 5711-1951, Right to Work Sitting and in Appropriate Terms Law, 5767-2007 and different extension orders concerning the social benefits and pension contributions that the Group's employees are entitled to.

According to the Minimum Wage Law (Increase of Minimum Wage Amounts – Temporary Order), 5775-2015, the monthly minimum wage has been gradually updated commencing from April 1, 2015 through January 1, 2017, such that as of the date of this Report and commencing from the salary for December 2017, the minimum wage amounts to NIS 5,300.

On March 15, 2018, an extension order was signed, in the framework of which, commencing from April 2018, the work week was shortened from 43 hours to 42 hours per week (and respectively, the hourly fee is calculated according to 182 work hours per month rather than 186 hours, as was previously done). In light of the said extension order and as of April 1, 2018, the hourly work rate for minimum wage employees in any scope of position (monthly and hourly) is calculated by dividing the monthly minimum wage, namely, the sum of NIS 5,300 (as of the date of the extension order) by 182 hours *in lieu* of by 186 hours and is therefore equal to NIS 29.12 per hour (*in lieu* of NIS 28.49 per hour).

The increase in the minimum wage, as stated above, including the minimum hourly rate, has a material effect on the Company's results, since the vast majority of its employees are minimum wage employees.

In addition, the provisions of the Youth Labor Law, 5713-1953 apply to the Group, with respect to the restrictions and special arrangements on the employment of workers by its virtue.

1.26.3 **Consumer Laws**

The Company's operating segment is subject to the consumer laws, including the Consumer Protection Law, 5741-1981 and the Supervision of Products and Services Law, 5718-1957, including order and regulations promulgated thereto (collectively: the "**Consumer Protection Laws**"). These laws include, *inter alia*, provisions prohibiting consumer deception, requiring price-labeling, product labeling, including a list of the product's ingredients, laundering instructions and provisions concerning product return policy. For additional details regarding the Company's product return policy, see Section 1.23.2 above.

The Consumer Protection Laws establish an administrative enforcement mechanism in connection with violations of the Consumer Protection Laws, granting the Consumer Protection Authority enforcement and supervision powers and the authority to impose monetary sanctions. According to the Consumer Protection Laws, the relevant authorities may act expeditiously and as severely as

required in any event of violation of the Consumer Protection Laws and where it was decided not to use criminal enforcement measures, to act against offenders without the need to prove the elements required for criminal enforcement.

1.26.4 **Liability for Defective Products Law, 5740-1980**

This law imposes on the Company, as an importer, liability for bodily damage caused to third parties as a result of defects in the products as specified in the said law, imported by it, subject to defenses set forth in the law. The Company has product liability insurance coverage.

1.26.5 **The Standards Law, 5713-1953 (the "Standards Law") and the Standards of the Israeli Standards Institution**

The Company markets its products according to different standards published from time to time by virtue of the Standards Law. The Standards Law authorizes the Israeli Standards Institute to establish binding standards intended to secure adequate quality and proper condition of products. The standards refer to the properties of the products and include, *inter alia*, details regarding their operation, purpose, transportation methods, labeling and packaging and such other properties of the products and their components.

1.27 **Material Agreements**

1.27.1 AMI Foundation's investment agreement in the Company – for details see Section 1.5 above.

1.27.2 For details regarding the Company's engagements with a material supplier see Section 1.22 above.

1.27.3 Agreements regarding material subsidiaries

As of the date of this Report, the subsidiaries Max Rishon Ltd., Big Max Ltd. and Max Amot Beer Sheva Ltd. are material to the Group's operations. For details regarding the main provisions of the Shareholders Agreements for the Subsidiaries, including with respect to the above subsidiaries, see Section 1.16.1.3 above. For details regarding the main provisions of the leases entered into by said subsidiaries in connection with the spaces of the stores operated by them, see Section 1.19.1 above.

1.27.4 Management agreement with Mr. Ori Max - for details regarding the management agreement entered into between the Company and a company wholly owned by

Mr. Ori Max concerning the rendering of services by Mr. Max to the Company, see Section 8.1.3(A) of Chapter 8 of the Prospectus.

1.27.5 Management Agreement with Mr. Evan Neumann - for details regarding the management agreement entered into between the Company and a company wholly owned by Mr. Evan Neumann concerning the rendering of services by Mr. Neumann to the Company, see Section 8.1.3(B) of Chapter 8 of the Prospectus.

1.27.6 Agreements for the purchase of protective equipment against COVID-19 - At the end of the first quarter and at the beginning of the second quarter of 2020, while restrictions were placed on economic operations due to the spread of the Coronavirus, the Company entered into agreements for the purchase of protective equipment with different groups of buyers, including a company owned by Ori Max and a company owned by Evan Neumann (**the "Protective Equipment Transactions"**). For further details, see Section 8.7.6 to Chapter 8 of the Prospectus, as well as Note 1.D to the Financial Statements. For details regarding the demand letter sent to the Company in connection with the Protective Equipment Transactions and the Settlement Agreement between the Company and additional parties to such transactions, see Note 15H to the Financial Statements.

1.28 **Legal Proceedings**

1.28.1 For further details regarding material legal proceedings to which the Company is a party, see Note 15 to the Annual Financial Statements and Note 15 to the Financial Statements.

1.29 Targets and Business Strategy

The Company examines from time to time its position with its customers, compared to its competitors, while analyzing its results and market trends, with the intent to maintain its strategic position on the competition map and to continue to improve its performance on an ongoing basis. As of the date of this Report, the Company's operations and strategic objectives are based on four building blocks:

1.29.1 Growth

The Company intends to continue expanding the Max Chain and improve its business results, including, *inter alia*, by opening new stores in additional areas in Israel and by opening flagship stores alongside additional branches in city centers. During June 2020, the Company opened two new stores in Ra'anana and Jerusalem, in October 2020, it opened an additional new store in Karmiel. For details on new stores expected to be opened in 2021, see Section 1.30 below. The Company periodically examines new locations for opening flagship stores. For this purpose, in general, the Company focuses on sites with the following features: (a) located up to 15-20 minutes' drive from places with a population of approximately 30 thousand people; (b) store space of approximately 2,000 square meters at least; and (c) convenient access and parking. In the Company's estimation, the expansion of the Chain may allow it to increase its profit margin.

In accordance with the policy and manner of managing the opening of new stores in the Company, in the Company's estimation, new stores that will be opened

should be expected to return the investment in less than two years, and should be expected to be optimized in the metrics examined for each new store that is opened (Mature Level) within four years. The Company estimates that in general, the structure and design of the large stores allows a relatively low capital investment at the time of construction.

In accordance with a market research conducted by the Company, the policy and new managing manner of the stores may create growth opportunities in market segments that have not yet been seized (whitespace), while being able to double the number of its stores and area (in square meters) in Israel in the medium to long term. In recent years, the total commercial area (in square meters) of the Group's stores almost doubled, from approximately 24.5 thousand square meters as of December 31, 2017, to approximately 45.8 thousand square meters as of December 31, 2020. The Company's strategy is to strive to open 3-5 new stores per year.

The Company's strategy is to focus mainly on the opening of stores to be operated by subsidiaries (and not by franchisees). Without derogating from the above, the Company examines the model under which the small stores shall operate under the brand name "Max 20", the vast majority of which are operated by franchisees, and the possibility to expand this set-up and open additional stores.

The Company has made a significant investment in infrastructure in recent years, in order to support the planned growth. In the Company's estimation, the logistic centers in Caesarea are prepared to support further growth in the Company's operations. Among other things, the Company examines the possibility to grow and target new audiences. In addition, the possibility to expand its operations overseas, in the long-term, is also examined from time to time.

In addition, the involvement of the Company's trading unit in the international markets creates a significant opportunity to the Company to increase its profit margin by expanding its direct import system (at the account of purchasing imported goods from local suppliers).

The Company has been working in recent years to increase the share of directly imported products among all products sold in stores. These products are mainly imported from China. As of 2019, the products imported by the Chain include products from the variety of categories offered in the stores, including products

that are designed and manufactured specifically for the Company, in accordance with current and/or changing fashion and trends. As of the date of this Report, approximately 50% of all products marketed in the Chain are products that are directly imported by the Company. This way, as aforesaid, the Company can offer its customers the products of well-known brands, alongside products that are directly imported by the Company, which are less expensive, and thus, to grant the products imported by the Company an advantage over its competitors.

The direct import of the Company's products allows direct supply from the manufacturing plant to the Company, without any third-party intermediaries, allowing the reduction of costs, and affecting the product's price, as well as increasing the variety for the Chain's customers. As part of the Company's growth strategy, the Company plans to increase the share of products imported independently, to approximately 70% of all products marketed in the stores.

As part of the Company's long-term strategy, the Company set several growth targets, that include: (a) opening 3-5 stores annually; (b) annual growth in revenues at the rate of 10%-15%; (c) same store sales, in owned stores, at the rate of 3% per year;[17] (d) adjusted EBITDA margin expansion by approximately 200 bps[13]; and (e) annual net income growth at the rate of 18%-20%.

1.29.2 **Diversity**

The Company intends to continue to expand the categories of its products according to changing fashion trends, demand and consumer preferences, while maintaining a wide, diverse and up-to-date selection of products at attractive prices; all of the above while integrating methods, processes and management culture for streamlining and maximizing the Company's inventory.

1.29.3 **Shopping Experience**

The Company carefully acts to preserve and promote the unique shopping experience at the Max Chain, including by investing efforts in creating an energetic, meticulous and organized shopping environment, investing efforts in expanding the scope of sales and supply of products that are directly imported by the Company, and through emphasis on high level of service orientation.

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[17] For details on this operating indicator, see Section 6 of the Board Report.

In this context the Company intermittently examines possible growth engines, including the establishment of a multi-channel service platform including online sales and a customer loyalty program whose objective is to increase the Company's customer-base and to contribute to the Chain's general shopping experience. In 2021 the Company intends on focusing on the opening of stores as specified in Section 1.29.1 above. The Company shall continue examining the possibility of establishing an online platform from time to time, and the correct timing for its establishment. Similarly, the Company shall continue to act to establish a customer loyalty program in a form and manner suitable for the Company's operations and which will contribute to the shopping experience of the Company's loyal customers.

1.29.4 **Price**

As previously mentioned, the objective of the Company is to expand its operations; however, at the same time, it continues and shall continue to offer its products at an attractive prices level to its customers and to sustain its competitive edge in the market. The Company's practice is to avoid discounts and markdowns, since attractive prices are maintained in the Chain throughout the year, and constitutes one of the Chain's basic concepts from its inception, and it is obtained by an efficient supply chain and the meticulous and constant involvement of the trade department in international markets and rapidly changing fashion trends, working to adapt the most desirable products at the best prices for the Chain's customer base. In general, the Company offers products at lower prices than 'conventional' retail chains.[18]

Among other things, the Chain continues to act to achieve this basic concept by improving and streamlining its operations *vis-à-vis* suppliers and by increasing the scope of merchandise directly imported by the Company independently, in lieu of purchases from local suppliers.

The content of this Section regarding the Company's strategy and its possible impact on the Company's operations, as well as the opening new stores, falls within the definition of "forward- looking information", as defined under the Securities Law, and is based on the Company's ability to open new stores, expand the product categories

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[18] According to a survey conducted by the Company in comparison with other retail chains in Israel, which are not 'discount' chains, as of June 22, 2020.

and increase the scope of the Company's independent import. The ability to carry out or not carry out the abovementioned plans, in whole or in part, or to carry them out in a different manner, including in a materially different manner than expected, depends, inter alia, on the condition of the market, on negotiations with third parties, logistic difficulties and the behavior of consumers and Company's customers and/or the manifestation of all or any part of the risk factors described in Section 1.30 below.

1.30 **Expected Developments in the Upcoming Year**

1.30.1 Growth – Opening new owned stores

As part of the Company's strategy of working to continue expanding the Chain and improving its business results, by opening new stores in additional areas in Israel, the Company opened new branches in Jerusalem, Ra'anana and Karmiel during 2020. In addition, and in accordance with agreements signed by the Company, 4 new branches are expected to be opened by the end of Q3 2021, one of which shall replace an existing branch, and an additional one shall operate alongside an existing branch and shall eventually replace it.

For additional details regarding the opening of the new stores, see Section 1.29.1 above.

The content of this Section regarding the Company's expectations for development in the upcoming year, is "forward-looking information", as defined under the Securities Law, and is based on the Company's ability to open new stores, the execution or lack of execution of the abovementioned plans, in whole or in part, or their execution in a manner that is different, including in a materially different manner than expected, depends, inter alia, on the condition of the market, negotiations with third parties, dealing with logistic difficulties and the behavior of consumers and customers of the Company and/or the manifestation of all or any part of the risk factors described in Section 1.30 below.

1.31 **Discussion of Risk Factors**

Macro factors

1.31.1 Economic and social situation in the market and changes in standard of living and consumption habits

In principle, the market of the Group's products is sensitive to changes in household income and to the level of economic activity in the Israeli market.

Accordingly, an economic slowdown or recession in the market shall lead, in principle, to a decline in the scope of private consumption and to a decline in the demand for the Group's products. However, the Company estimates, noting the information included in Section 1.8.5 above, that precisely in times of recession, there might be a demand for the Group's products, in light of its pricing policy and the wide selection of products offered by it. In addition, the Group's operations are sensitive to the social situation and to the changes occurring therein from time to time, including social and other protests, which may have a limited but material effect on the market, including road blockages which may prevent access to the Group's stores. On the other hand, certain social protests and heightened public awareness about the cost of living, may have a positive effect on the Group's scope of sales, since its products are sold at attractive prices.

1.31.2 The security situation in Israel

Deterioration in the political and security situation in Israel may result in a decline in the demand and consumption of the Group's products. Accordingly, it may adversely affect the Company's situation. Geo-political instability in countries located in the Middle East may also affect the position of the Israel market an accordingly, the position of the Company. In addition, the security situation may affect buyer traffic in the Chain's stores in combat periods or in continuing periods of terror. Such decline in demand and consumption may adversely affect the Company's financial results.

1.31.3 Changes in interest rates

Changes in interest rates in Israel and in the world may affect the Company's business results as well as loans and/or credit obtained and/or which may be obtained in the future by the Company and its subsidiaries.

1.31.4 Changes in minimum wage and labor laws

Changes in the minimum wage or other material changes in labor laws in Israel affect the employment cost of a significant part of Company's employees. Due to the large number of employees employed by the Company, a significant increase in the minimum wage or additional future changes as aforesaid may affect the Company's business results and decrease its profitability.

For additional details regarding minimum wage increases in recent years, see Section 1.26.2 above.

1.31.5 Currency fluctuations

The Company's proceeds derive from sales to customers in Israel and are received in Shekel. However, the vast majority of the merchandise is purchased from the Company's suppliers in foreign currency. Accordingly, the Company is exposed to foreign currency fluctuations in connection with acquisitions of goods in foreign currency from suppliers overseas and from local suppliers the cost of whose products is sensitive to foreign currency fluctuations. Fluctuations in the exchange rate of the U.S. dollar relative to the Israeli currency may create the need to update the Group's sale prices and/or to changes in its profitability, and accordingly, may have a material effect on the Group's income and results and on the development of its business affairs. In order to minimize the effect of exchange rate fluctuations on its results, the Company performs hedging transactions from time to time, at management's discretion and in accordance with its needs. For additional details see Section 1.8.3 above.

1.31.6 Changes in the Consumer Price Index

Due to the fact that the Company's costs and obligations are linked, in part, to the Consumer Price Index, while its proceeds are not linked to the Index, material changes in the Consumer Price Index may affect the Company's financial results. For additional details see Section 1.8.4 above.

1.31.7 Health Emergencies

Health emergencies may affect the habits and the scope of consumption of consumers, as well as the Company's ability to purchase and import products from locations adversely affected by the health emergency, and consequently its ability to sell these products regularly. For details regarding the Coronavirus outbreak and its impact on the economic activity around the world, see Section 1.8.10 above.

The continued spread of the Virus and the consequential continued imposition of restrictions by the Israeli government, may have a material adverse effect on the Company's operations and financial results. In addition, since the Company purchases approximately half of its products from suppliers abroad, the existence

of restrictions on import as a result of the spread of the Coronavirus, may also materially adversely affect the Company's operations and results.

To the extent the Company's stores close as a result of regulatory restrictions imposed due to a health emergency, the Company will assess the possibility of continuing its business operations, under the restrictions which shall be imposed.

For additional details regarding the effect of the coronavirus crisis on the Chain's operations and how the Company is coping with the guidelines and restrictions imposed by the Israeli government, including a lockdown during the months of September 2020 – February 2021, see Section 1.4 of the Board Report.

Sectorial factors

1.31.8 Increased customs duties on import and higher shipping costs

As of the date of this Report, the Company purchases approximately 50% of its products from overseas suppliers. Accordingly, increased customs duties on Company's products and, particularly, increased customs duties on imports from the Far East, and higher shipping costs and shipping container prices, may harm the Company's profitability.

1.31.9 Changes in Consumer Preferences

The field of retail sales of the Chain's products is subject to frequent changes in consumer preferences, materially affecting the Company's results and business affairs and obligating it to anticipate such changes and respond to them in real time by adapting its products to constantly and rapidly changing fashion trends. For details regarding the Company's management of this risk factor see Section 1.8.6 above.

1.31.10 Retention of Employees and Managers

The Company's operations require employing a substantial number of managers and workers at all times. Accordingly, the Company's ability to maintain and carry out its activity and to expand it, depends on its ability to recruit high-quality workforce with a "customer-first" approach, and to retain employees and managers, and in particular managers and deputy-managers of the Chain's stores. In this regard, it should be noted that there are several managers in the Company who are family members of each other.

1.31.11 Operating in a competitive market

The Company operates in a competitive market characterized by a variety of competitors, including international chains, local chains, independent stores and e-commerce platforms, local and international. The competition requires the Company to constantly renew itself and quickly respond to changes in the market, while maintaining an attractive price level and providing a unique and positive shopping experience to its customers, to attract additional customers from their usual consumption environment, and to preserve its customers. For additional details regarding the Company's management of the competition in its operating segment see Section 1.17 above.

1.31.12 Regulatory changes in Israel

The Company's operations are exposed to and affected by statutory provisions and orders on consumer issues and supervision of the prices of products and services, including sales, product quality and returns. Consequently, significant regulatory changes may affect the results of the Company. For additional details see also Sections 1.8.8 and 1.26 above.

1.31.13 Operational risk

The Group is exposed to loss and/or harm to its current operations as a result of flaws in its internal work procedures, acts taken by employees (mistakenly or willfully), flaws in the various information and/or communication systems (computer, trade and communication systems), or as a result of different external events, including flaws in the Company's supply chain. Accordingly, flaws in information systems and human errors may expose the Group to risks and may, upon their realization, affect its results.

Special factors

1.31.14 Dependence on a key person

Mr. Ori Max, the Company's Co-CEO, is the Company's key person. If Mr. Ori Max ceases working with the Company, this event may affect its results.

1.31.15 Risk to goodwill

A material factor in the Company's success is the name Max and the goodwill attached thereto. Inability to protect the said intellectual property may have a material effect on the Group's goodwill and results.

Risk factors table

The table below presents the risk factors described above, based on their various types. The risk factors are graded according to the assessments of the Company's management and according to their effect on the Company's business affairs as a whole:

Type of Risk	Risk factors	Impact on Company's Business Affairs		
		Great impact	Medium impact	Small impact
Macro Risks	Economic position of the market and changes in standard of living and consumption habits		X	
	Security situation in Israel		X	
	Changes in interest rates			X
	Changes in minimum wage and labor laws		X	
	Currency fluctuations		X	
	Health emergencies		X	
Industry Risks	Increased customs duties on import and shipping costs		X	
	Changes in consumer preferences		X	
	Retention of employees and managers			X
	Operations in a competitive market		X	
	Regulatory changes in Israel		X	
	Operational risk			X
Unique Risks to the Company	Dependency on a key person		X	
	Risk to goodwill		X	

The Company's assessment regarding the abovementioned risk factors, including the effect of the said risk factors on the Company, falls within the definition of "forward-looking information", as defined under the Securities Law, which is based on the information available to the Company as of the date of this Report and includes forecasts and analysis of the Company. The effect that a certain risk factor which manifested itself may differ from the Company's assessment, including, inter alia, due to factors which are not necessarily within the Company's control. In addition, the Company may be exposed in the future to additional risk factors and the effect of each risk factor, if manifested, may differ from the Company's forecasts.

Board of Directors' Report on the State of the Company's Affairs

As of December 31, 2020

Max Stock Ltd.

Board of Directors' Report on the State of the Company's Affairs

For the year ended December 31, 2020

The board of directors of Max Stock Ltd. (the "**Company**") hereby submits the board of directors' report on the state of the Company's affairs for the year ending on December 31, 2020 (the "**Reporting Period**"), in accordance with the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the "**Regulations**").

A. Board explanations of the state of the Company's affairs

1. The Company's activities and material events during and subsequent to the Reporting Period

1.1 The Company was incorporated in Israel as a private company on December 16, 2004 under its current name. On November 17, 2015, the Company's name was changed to "Max Management Israel Ltd." and on March 10, 2020, its name was changed back to its current name - Max Stock Ltd.

1.2 From incorporation and as of the publication date of this report, the Company has been engaged in a retail business through operating a national "discount" chain-store trading under the name "Max - Fun Shopping" and "Max 20" which offers a range of household products at attractive prices. As of the date of the report, the Company operates 50 branches[1] throughout Israel, from Kiriat Shmona to Eilat, which are mostly operated by subsidiaries and partially through franchises (the "**Max Chain**" or the "**Chain**").

1.3 On September 14, 2020, the Company's shares were first publicly offered through a tender offer and its shares were first listed on the Tel Aviv Stock Exchange Ltd. ("TASE") on September 17, 2020. For more information see Note 18C of the financial statements.

1.4 Impact of COVID-19 on the Group's operations

The COVID-19 virus (the "Virus" or "COVID-19") pandemic emerged in China during Q1 2020 and subsequently spread to many countries around the world, including Israel. The spread of COVID-19 has had widespread micro and macro economic effects, which, only naturally, have materially impacted the Chain's operations. The COVID-19 restrictions included restrictions on movement, commerce and manpower being present at work-places.

Similarly, the spread of the Virus, *inter alia*, has disrupted the supply chain, decreased the scope of global transportation, increased shipping prices (primarily in Q4 2020), caused the Israeli government

[1] Including the Dimona branch which closed in November 2020 and which is expected to reopen in a larger space at the beginning of Q2 2021.

as well as many other governments around the world to impose restrictions on movement and commerce and reduced the value of financial assets and commodities in markets in Israel and worldwide. In addition, as part of the attempts of the Israeli government to cope with the Coronavirus and to stem its spread, the Israeli government has taken unprecedented steps that are continuously changing, which have and shall continue to have a material impact on business operations in Israel in general, and the Chain's operations in particular.

Impact on the Company's stores and its employees

The Company's stores were closed at the end of Q1 and the Chain placed the store employees on unpaid leave. The stores reopened on April 19, 2020, together with the Israeli government easing restrictions and gradually reopening the economy over April-May 2020 under the conditions and guidelines mandated by the "Tav Hasagol" (purple standard).

During the period the Chain was closed, the Chain was materially adversely impacted due to the fact that it generated no revenues. The Company negotiated rental payment arrangements with all lessors for the month of April. Furthermore, in order to reduce the adverse impact on the Company's revenues during the period the chain was shut, the Company started importing medical equipment required for this period ("**PPE Transactions**"). These imports partially alleviated some of the lost profits resulting from the shutdown of the Chain's stores in Q1.

Towards the end of Q2 2020 and during Q3 2020, there was another wave of the virus, which led to the Government imposing additional restrictions (the "**Second Shutdown**"). Notwithstanding the restrictions, the Company's stores continued to operate during the Second Shutdown in accordance with the guidelines and regulations which enabled essential and other businesses defined in the regulations to continue to operate.

Commercial activity was partially reopened in Q4 2020 (including shops with street access and malls); however, as a result of increasing morbidity in Israel, another shutdown was introduced on December 27, 2020, with similar conditions as the Second Shutdown, i.e. - a shutdown of commerce (except for essential stores defined under the regulations) and the education system (the "**Third Shutdown**"). Despite additional restrictions being introduced during the Third Shutdown, the Company's stores continued to operate except for certain sections which were not defined as essential. On February 21, 2021, following the date of the report, the Israeli government allowed commerce to reopen under the "strict purple standard" guidelines.

As of the publication date of this report, most commercial operations have been allowed to reopen and the Company's stores are operating as usual in full.

In 2020, notwithstanding the period in which the Company's stores were closed, the Company's revenues increased relative to the same period last year. The increase is primarily attributed to the Company's involvement in the PPE Transactions and an increase in the scope of the Chain's ongoing

operations.

In 2020 the Chain's SSS[2] increased by approximately 11% relative to the same period last year (unaudited and unreviewed figures), primarily as a result of an increase in demand for pharmaceutical, cleaning and laundry, kitchen, tools and electric products, which resulted from increased demand for products connected to people staying at home.

For additional details about the Company's financial and operating metrics for 2020, see Section 6 below.

For additional details about the Company's operating results for 2020, offsetting the PPE Transactions, see Section 6.4 below.

The possible impact the spread of COVID-19 may have on the Chain's operations, as described above and below, constitute "forward-looking information," as defined in the Securities Law, the realization of which is uncertain and contingent on factors beyond the Company's control. This information is primarily based on public information regarding COVID-19, as existing on the date of this report as well as on assessments made by the Company which are, inter alia, based on said information. It should be clarified that there is no certainty that these assessments will eventuate, either in whole or in part, and they may even be materially different than what is presented above, this, inter alia, due to their dependence on external factors that are not within the Company's control, including changes and trends in the spread of COVID-19, decisions made by both Israeli and international authorities, and the impact on the spending habits of the Company's customer base.

1.5 Additional material events during and following the Reporting Period

a. In 2020, the Company opened three new stores in the cities of Raanana, Talpiot Jerusalem (a new store in addition to the existing one) and Carmiel which are being operated by subsidiaries.
b. In 2020 the distribution of dividends totaling ILS 8,606 thousands to holders of non-controlling interests (minority right holders) was announced.
c. In 2020, the Company acquired minority rights from shareholders of the subsidiaries ranging from 5%-49% of the share capital. Following the acquisition, the Company's holdings in the subsidiaries increased to 75%-100% of their total share capital. The share of the acquired minority rights in the net profit of the acquired companies in 2020 totaled approximately ILS 1,393 thousands. The Company paid approximately ILS 5,800 thousands for these shares.

For additional details about material events following the date of the report on the financial position, see Note 29 of the financial statements.

[2] Same Store Sales - a figure which reflects the scope of the Chain's sales in stores which have been open for at least one year, and which compares the sales in stores during the period relative to the same period last year.For additional details see Section 6.1 below.

For additional details about a description of the commercial environment and its impact on the Company's operations, see Chapter A of this report.

2. Financial Position

Item	As of December 31 (ILS 000's)		Company's explanations
	2020	2019	
Customers	73,740	53,969	The increase as of December 31, 2020, relative to the comparison period, is primarily attributable to the increase in the scale of the Company's operations, as described above.
Inventory	127,272	102,355	The increase as of December 31, 2020, relative to the comparison period, is primarily attributable to the increase in the scale of the Company's operations, as described above.
Other current assets	161,961	61,453	The increase as of December 31, 2020, relative to the comparison period, is primarily attributable to an increase in cash and short-term deposits line items. The increase in the cash line item is attributable to a positive net cash-flow from the Company's ongoing operations during 2020.
Non-current assets	569,751	415,120	The increase as of December 31, 2020, relative to the comparison period, is primarily attributable to recognizing a right of use asset during 2020, as a result of applying IFRS 16 - Leases ("Standard 16" or "IFRS 16") and an increase in fixed assets during 2020.
Total assets	**932,724**	**632,897**	
Trade payables (liabilities to vendors, suppliers and service providers)	116,890	59,024	The increase as of December 31, 2020, relative to the comparison period, is primarily attributable to the increase in the scale of the Company's operations, as described above.
Other current liabilities	111,558	88,396	The increase as of December 31, 2020, relative to the comparison period, is primarily attributable to the increase in current maturities of lease liabilities attributable to lease liabilities recognized during 2020, current taxes payable, an increase in the accounts payable and credit balance line items, primarily attributable to accounts payable for wages and liabilities for financial

Item	As of December 31 (ILS 000's)		Company's explanations
	2020	2019	
			derivatives.
Non-current liabilities	508,684	365,421	The increase as of December 31, 2020, relative to the comparison period, is primarily attributable to an increase in lease liabilities recognized during 2020.
Total liabilities	**737,132**	**512,841**	
Equity	195,592	120,056	In 2020 there was an increase in equity deriving from a profit of approximately ILS 87.6 million and from a reserve for share-based payments totaling approximately ILS 2.3 million which was offset by the acquisition of minority rights in the subsidiaries and from the distribution of dividends to minority shareholders totaling approximately ILS 5.8 million and ILS 8.6 million, respectively.
Total equity and liabilities	**932,724**	**632,897**	

3. Operating Results

Item	For the year ended December 31 (ILS 000's)			Company's explanations
	2020	2019	2018	
Revenues	1,010,495	741,550	617,986	The increase in revenues during the presented years arises from: (1) An increase in the Company's operations, both through increasing revenues of existing branches and by opening new branches; and (2) The Company's activities in the PPE segment, which the Company entered into in response to the spread of COVID-19, for additional information see Note 1(c)(d) of the financial statements (the "**Company's PPE Activities**").
Cost of goods sold	651,562	448,003	375,040	The increase in cost of goods sold during the presented years arises from an increase in the Company's operations, both through increasing the costs of goods sold in existing branches and by opening new branches and from the Company's PPE Activities. The increase in costs of goods sold is consistent with the increase in sales.
Gross profit	**358,933**	**293,547**	**242,946**	Presented below are the rates of gross profit for the reporting periods: 2020 - 35.5%, 2019 - 39.6%, and 2018 - 39.3%. The decrease during the reporting period relative to the comparison periods is attributable to the Company's PPE Activities. Offsetting the impact of the Company's PPE Activities, the rate of the gross profit in 2020 is 38.9%.
Marketing and sales expenses	170,167	164,683	138,956	The increase in marketing and sales expenses during the reporting period is primarily attributable to an increase in depreciation of right of use assets attributable to right of use assets recognized at the end of 2019 and during 2020, and an increase in depreciation of fixed asset expenses attributable to investments in new branches, the Company's new logistics center and salary expenses attributable to an increase in scope of the Company's activities.
General and administrative expenses	33,782	26,566	22,404	The increase in general and administrative expenses during the reporting period is primarily attributable to an increase in the CEO bonus due to the Company's improved operating results, salary expenses arising

Item	For the year ended December 31 (ILS 000's)			Company's explanations
	2020	2019	2018	
				from an increase in the scope of the Company's operations, share-based payments imputed during the period, and an increase in costs for professional and IT services to strengthen the Company's headquarters.
Other income	(1,224)	(733)	-	Other income during the reporting period is attributable to the profit from writing off leasing liabilities resulting from the application of Standard 16.
Other expenses	5,479	1,499	1,682	Other expenses during the Reporting Period are attributable to issuance expenses totaling approximately ILS 4.6 million and a capital loss from the sale of fixed assets totaling approximately ILS 0.8 million.
Operating profit	**150,729**	**101,532**	**79,904**	
Financing revenues	(1,118)	(601)	(45)	Financing revenues during 2020 are primarily attributable to exchange rate differentials.
Financing expenses	20,400	10,998	1,721	The increase in financing expenses in 2020 relative to the comparison period is primarily attributable to financing expenses for leases, financing expenses for USD hedging transactions.
Financing expenses for exceptional transactions	13,276	-	-	Financing expenses attributable to credit obtained by the Company from unaffiliated parties and the Company's controlling shareholder to support the Company's PPE Activities as detailed above.
Pre-tax profit	**118,171**	**91,135**	**78,228**	
Income taxes	30,542	20,861	19,414	
Net profit	**87,629**	**70,274**	**58,814**	
Other comprehensive profit (loss):				
Remeasuring defined benefit plans	(32)	(278)	380	For employee benefits.
Total comprehensive profit	**87,597**	**69,996**	**59,194**	

4. Liquidity

Item	For the year ended December 31, 2019 (ILS 000's)			Company's explanations
	2020	2019	2018	
Cash flow from current operations	159,999	96,612	48,996	The increase in cash flow from current operations in the reporting year primarily arises from: (1) An increase in the scope of the Company's operations during the reporting year relative to 2018-2019; (2) Classifying lease payments in the cash flow used for financing activities as a result of the initial application of Standard 16 from January 1, 2019. Lease payments were included in cash flows from current operations prior to application of the standard.
Cash flows utilized for investment activities	(41,357)	(10,672)	(13,841)	The increase in cash flows utilized for investment activities is for cash the Company generated as part of the increase in its operations and maintaining them in short-term deposits and to acquiring and investing in fixed assets in the Company's new branches and logistics center.
Cash flows utilized for financing activities	(46,436)	(83,623)	(54,640)	The change in cash flows utilized for financing activities during the Reporting Period is primarily attributable to: (1) Classifying lease payments in the cash flow used for financing activities as a result of the initial application of Standard 16 from January 1, 2019. Prior to application of the standard lease payments were included in cash flows from current operations; (2) Repayment and obtaining loans from banking corporations and the controlling shareholders; (3) Acquisition of minority rights in subsidiaries; (4) Distribution of dividends to the Company's shareholders in previous years and to non-controlling interest right holders by the subsidiaries.
Increase (decrease) in cash and cash equivalents	**72,206**	**2,317**	**(19,485)**	

5. Initial application of Standard 16 (IFRS 16)

Further to Note 2K of the financial statements, regarding leases and the initial application of Standard 16, presented below is a description of the application of Standard 16 on the 2019 results (unaudited):

Item	Pre-IFRS 16	Impact of IFRS 16	Post-IFRS 16
ILS 000's			
Gross Profit	292,669	878	293,547
EBITDA	100,527	40,662	141,189
Operating profit	93,933	7,599	101,532
Pre-tax profit	93,246	(2,111)	91,135
Net profit	**71,898**	**(1,624)**	**70,274**

Presented below is a description of the impact of Standard 16 on the 2020 results (unaudited):

Item	Pre-IFRS 16	Impact of IFRS 16	Post-IFRS 16	After applying IFRS 16 excluding activities selling PPE*
ILS 000's				
Gross profit	357,578	1,355	358,933	344,589
EBITDA	154,651	45,680	200,331	185,987
Operating profit	142,357	8,372	150,729	136,385
Pre-tax profit	125,210	(7,039)	118,171	117,103
Net profit	**93,049**	**(5,420)**	**87,629**	**86,807**

* For details about the sale of PPE, see Note 1(c)(d) of the Financial Statements.

6. Key Performance Indicators (KPI)

6.1 As of the publication date of the report, the Company's management utilizes six operating and financial metrics which are not based on generally accepted accounting principles, in order to assess, measure, track and present the Company's operating and financial performance. These metrics which are included in managerial reports and investor presentations which are being submitted concurrently to this report should not be understood as being an alternative to the information included in the Company's financial statements. Below is a description of the metrics:

KPI	Date of calculation / components	Objective of the KPI	Data
EBITDA	Operating profit, offsetting depreciation and amortization and other expenses/revenues.	A commonly used KPI, which serves as an indicator of the cash-flow being derived from the Company's ongoing operations, offsetting the impact of the Company's capital structure, the impact of one off or exceptional events in the Company's affairs and the impact of taxes and financing.	See the description included in the table below.
EBITDA Adjusted	EBITDA offsetting the impact of Standard 16 and expenses for share-based payments recognized during the year.	The objective of using this KPI is to present the Company's EBITDA while offsetting the impact of the application of Standard 16 and expenses for share-based payments recognized during the year. For a description of the adjustments made to net profit and adjusted EBITDA, see the table below.	See the description included in the table below.
Same Store Sales	The rate of change in sales in stores owned by the Company and operating for a period of one or more calendar years.	This datapoint, which is generally presented as a percentage relative to the preceding period, enables the Company's management to measure the annual (periodic) change in sales, neutralizing stores that have been open for less than one year, and presents a reliable picture of the change in business activity for the Company's management without any distortion from stores which have not yet established themselves and been operating for a full year.	The rate of change in same store sales as of December 31 for 2018, 2019 and 2020 is 1%, 6% and 11%, respectively.

Rates of change in the average basket price	The rate of change between the total calculated by dividing the total sum of all transactions by the number of transactions during the Reporting Period relative to a corresponding or previous reporting period.	This metric presents the Company's management with a picture of the rate of increase or decline in the average amount customers spend on one occasion, and enables the Company's management to consider ways to differentiate different shopping quantities and to increase marketing.	The total average amount spent by a customer in a large store in 2018 relative to 2017, in 2019 relative to 2018 and in 2020 relative to 2019 increased by approximately 4%, 6% and 21%, respectively. The total change in the average amount a reserve spent by a customer in a small store in 2018 relative to 2017, in 2019 relative to 2018 and in 2020 relative to 2019 is approximately (1%), 3% and 23%, respectively.

6.2 Presented below is data about the Company's EBITDA and Adjusted EBITDA during the reporting periods:

Index	**For the year ended December 31**		
	2020	**2019**	**2018**
EBITDA	200,331	141,189	86,140
Adjusted EBITDA	156,996	100,527	86,140
Adjusted EBITDA excluding activities from selling PPE	142,652	100,527	86,140

6.3 Presented below is a description of the adjustments made on the Company's gross profit from EBITDA, and Adjusted EBITDA:

	2020	**2019**	**2018**
Net profit	87,629	70,274	58,814
Tax expenses	30,542	20,861	19,414
Financing expenses, net	32,558	10,397	1,676
Depreciation and amortization	45,347	38,891	4,554
Other expenses (revenues)	4,255	766	1,682
EBITDA	200,331	141,189	86,140
Adjustments for adjusted EBITDA[3]	(43,335)	(40,662)	-
Adjusted EBITDA	156,996	100,527	86,140

[3] Adjusted EBITDA – see Section 6.1 above.

6.4 Further to that set forth above in Section A, presented below are the results from the Company's operating activities excluding the sale of PPE:

	For the year ended December 31	
	2020	2019
	Unaudited	
	ILS 000's	
Revenues from sales	885,695	741,550
Cost of goods sold	541,106	448,003
Gross Profit	344,589	293,547
Marketing and sales expenses	170,167	167,060
General and administrative expenses	33,782	24,189
Other income	(1,224)	(733)
Other expenses	5,479	1,499
Operating profit	136,385	101,532
Financing revenues	(1,118)	(601)
Financing expenses	20,400	10,998
Profits before income taxes	117,103	91,135
Income tax	30,296	20,861
Net profit	86,807	70,274

7 Sources of financing

7.3 The Company primarily finances its operations from ongoing activities and credit from banking corporations.

7.4 Banking credit

The balance of credit obtained by the Company from banking corporations (including current maturities) as of December 31, 2020, totaled approximately ILS 36,054 thousands, compared with a total amount of approximately ILS 36,546 thousands as of December 31, 2019.

In March 2020 the Company obtained two short-term loans from two banking corporations totaling ILS 40 million with the objective of increasing its liquidity and to prepare for COVID-19-related restrictions which may be introduced and the possibility that they will materially adversely impact the Company's operations. In December 2020, the Company repaid the aforementioned loans.

7.5 Supplier credit

The Company receives credit from its suppliers for variable periods according to its agreements with the different suppliers, the vast majority of which are under terms of current plus up to 60 days. The total average scope of credit provided by the Company's suppliers in 2019 and 2020

was approximately ILS 45 million and ILS 75 million, respectively. The average number of days of credit for customers in 2020 was 61 days, compared to 40 days in 2019 and 36 days in 2018.

7.6 Customer credit

The average credit period for customers is 20 days. Most sales are performed on credit card. For additional information about the Company's sources of financing see Sections 11 and 14 of the financial statements.

7.7 Financial risk management

For additional information about the management of the Company's financial risks, see Section 16D of the financial statements.

B. Aspects of corporate governance

8 The Company's policy on donations

The Company has not established a donation policy. During the Reporting Period the Company donated immaterial amounts.

9 Directors with accounting and financial expertise

The minimum number of directors with accounting and financial expertise appropriate for the Company, as determined by the Company's board of directors pursuant to Section 92(a)(12) of the Companies Law, 5759-1999 (the "**Companies Law**"), is two directors. This determination was made based on the nature of the accounting and auditing issues which arise in preparing the Company's financial statements, the Company's operating segments, the size of the Company and the scope and complexity of its operations. As of the publication date of the report, there are five (5) directors serving on the Company's board of directors with accounting and financial expertise, including: Ms. Zehavit Cohen, Mr. Shay Aba, Mr. Shlomo Zohar, Mr. Peretz Goza and Mr. Oren Elezra. For more information regarding these directors, see Chapter D of this report.

10 Independent directors

As of the date of the date of the report, the Company has not adopted any provisions in its articles of association regarding the number of independent directors required under Schedule I to the Companies Law.

11 Disclosure regarding the Company's internal auditor

11.3 Name: Dana Gottesman Ehrlich

11.4 Date of commencement of service: October 10, 2019.

11.5 Internal auditor's compliance with statutory requirements: To the best of the Company's knowledge, as the internal auditor has informed the Company, the internal auditor is in compliance with the provisions stipulated in Section 146(b) of the Companies Law and Sections 3(a) and 8 of the Internal Audit Law, 5752-1992 (the "**Internal Audit Law**").

11.6 Internal auditor's affinity with the Company or affiliated entities: The internal auditor is not an employee of the Company; rather, she provides the Company with internal audit services as an external service provider on behalf of the accounting firm BDO Ziv Haft. Her activities do not give rise to a conflict of interests with her role as the Company's internal auditor. The internal auditor does not have any other position in the Company. The internal auditor serves as internal auditor of a number of other public companies.

11.7 Manner of appointment: The appointment of the Company's internal auditor was approved by the Company's board of directors on October 10, 2019, after the Company's management and board

of directors carefully examined her experience, met with her and after she was able to make a direct impression on them.

11.8 Organizational supervisor of the internal auditor: The chairperson of the Company's board of directors is the direct supervisor of the internal auditor.

11.9 Internal auditor's work plan: The audit plan is an annual plan. Planning the objectives of the audit, establishing preferences and the frequency of the audit are influenced by the following factors: The likelihood of managerial and administrative deficiencies, the exposure to activity and operating risks, specific matters the board requests be audited, matters required under applicable law, under an internal or external audit policy, the need to cyclically audit matters which have already been examined in the past. The Company's internal auditor's annual work plan was established jointly with the Company's management, the board of directors and the internal auditor. The internal auditor is currently performing a risk survey to develop a multi-year audit plan which, *inter alia*, will be used to establish the audit plan for 2021.

11.10 Performance of the audit: The Company has been informed by the internal auditor that she works in accordance with customary professional standards set forth in Section 4(b) of the Internal Audit Law, and in accordance with professional standards and guidelines established by the Global Institute of Internal Auditors and adopted by the Israel Institute of Internal Auditors. The board of directors has relied on the internal auditor's reports regarding her compliance with the professional standard requirements under which she is performing the audit.

11.11 Access to information: The internal auditor has free access as required under Section 9 of the Internal Audit Law, including constant and direct access to the Company's IT systems, including financial data.

11.12 Internal auditor's remuneration: The internal auditor's remuneration is to be calculated based on actual audit hours and on the agreed-upon hourly rate approved for each audit based on the annual working plan, the remuneration is not variable based on the audit outcome, and therefore does not impact the audit results. It is the view of the board of directors that the remuneration paid to the internal auditor does not impact her professional judgment.

12 Disclosure about the Company's auditor

12.3 Identity of the auditor

The accounting firm of Kost Forer Gabbay and Kasierer is the auditor of the Company and its subsidiaries (the "**Auditor**").

12.4 Auditor fees

12.4.1 Presented below are details regarding the fees paid to the Auditor for audit services, audit-related services, tax and other services in 2019 and 2020 (ILS 000's):

	Audit and prospectus services	Tax services	Other services
2020	1,338	172	15
2019	650	77	150

12.4.2 Presented below are details regarding the work hours invested by the Auditor for audit services, related services, tax and other services in 2019 and 2020:

	Audit services	Tax services	Other services
2020	3,662	190	202
2019	3,350	91	396

The fees paid to the Company's Auditor have been established through negotiations conducted by and between the Auditor and the Company's management, based on an estimated fee for the provision of the services, based on the number of hours invested by the Auditor. The fees paid to the Auditor have been approved by the Company's board of directors.

March 14, 2021

Zehavit Cohen	**Uri Max**	**Evan Charles Neumann**
Chair of the Board	**Co-CEO**	**Co-CEO**

Addendum A to the Board of Directors Report - A linkage adjusted balance sheet as of December 31, 2020 (ILS 000's)

	ILS	USD	Euro	Total
Current assets				
Cash and cash equivalents	116,190	1,399	674	118,263
Shorts term deposits	24,500	-	-	24,500
Customers	73,740	-	-	73,740
Current tax rebates	825	-	-	825
Accounts receivable and credit balances	18,373	-	-	18,373
Inventory	127,272	-	-	127,272
	360,900	1,399	674	362,973
Non-current assets				
Long-term deposit	160	-	-	160
Fixed assets, net	47,329	-	-	47,329
Right of use assets	511,704	-	-	511,704
Deferred taxes	10,558	-	-	10,558
	569,751	-	-	569,751
	930,651	**1,399**	**674**	**932,724**
Current liabilities				
Credit from banking corporations	15,432	-	-	15,432
Lease liabilities	53,830	-	-	53,830
Trade payables (liabilities to vendors, suppliers and service providers)	105,086	11,719	85	116,890
Current taxes payable	9,783	-	-	9,783
Financial derivatives	-	2,738	-	2,738
Accounts payable and debit balances	29,775	-	-	29,775
	213,906	14,457	85	228,448
Non-current liabilities				
Loans from banking corporations	20,622	-	-	20,622
Lease liabilities	486,126	-	-	486,126
Liabilities for employee benefits	1,936	-	-	1,936
	508,684	-	-	508,684
Equity				
Shareholders' equity	177,274	-	-	177,274
Non-controlling interests (minority rights)	18,318	-	-	18,318
Total shareholders' equity	195,592	-	-	195,592
	918,182	**14,457**	**85**	**932,724**

The above figures represent the Group's comprehensive linkage adjusted balance sheet. The treatment of foreign exchange exposure was done based on Israel as the region, due to the fact that it is Israel's currency differentials which impact the financing costs/revenues in the report on profit and loss.

Building a better working world

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Kost Forer Gabbay & Kasierer
2 Palyam Blvd,
Haifa 3309504

March 14, 2021

Attn:
Max Stock Ltd.
16 Hashita St., Caesarea.

Dear Madame and/or Sir,

Re: <u>Consent letter regarding the shelf prospectus of Max Stock Ltd. (hereinafter – the "Company") from September 2020</u>

We hereby inform you that we agree for the reports prepared by us, described below to be included (by way of reference) with the Company's shelf prospectus dated September 2020:

1) The auditor's report dated March 14, 2021, including the Company's consolidated financial statements for December 31, 2020 and 2019 and for each of the three years during the period ending on December 31, 2020.
2) The auditor's report dated March 14, 2021, including the Company's standalone financial information in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 for December 31, 2020 and 2019 and for each of the three years during the period ending on December 31, 2020.

Respectfully,

Kost Forer Gabbay & Kasierer
Auditors

Max Stock Ltd.

Consolidated Financial Statements

As of December 31, 2020

Max Stock Ltd.

CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2020

Table of Contents

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Auditor's Report to the Shareholders of
Max Stock Ltd.

We have audited the accompanying consolidated statements of financial position of Max Stock Ltd. (hereinafter – the "Company") as of December 31, 2020, and 2019, and the related consolidated statements of profit or loss and other comprehensive profit, changes in equity, and cash flows for each of the three years in the period ended December 31, 2020. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with generally accepted auditing standards in Israel, including the standards set forth in the Audit Regulations (Auditor's Operating Methods), 5733-1973. Those standards require that we plan and perform the audit in order to obtain a reasonable measure of assurance that the financial statements are free of material misrepresentation. An audit includes examining samples of evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles applied and significant estimates made by the Company's board of directors and management, as well as assessing the overall presentation of the financial statements. We believe that our audit provides a sufficient basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, with respect to all material aspects, the financial position of the Company and its consolidated companies as of December 31, 2020, and 2019, and their operating results, changes in their equity, and cash flows for each of the three years in the period ended December 31, 2020, in accordance with International Financial Reporting Standards ("IFRS") and the Israeli Securities Regulations (Annual Financial Statements), 5770-2010.

Respectfully,

Haifa, Israel
March 14, 2021

KOST FORER GABBAY & KASIERER
Auditors

Consolidated Statements of Financial Position

	Note	As of December 31 2020	2019
		ILS 000's	
Current assets			
Cash and cash equivalents	5	118,263	46,057
Shorts term deposits		24,500	- (*)
Customers	6	73,740	53,969
Current tax rebates		825	3,971
Accounts receivable and credit balances	7	18,373	11,425 (*)
Inventory	8	127,272	102,355
		362,973	217,777
Non-Current Assets			
Long-term deposit		160	160
Fixed assets, net	9	47,329	38,153
Right of use assets	10	511,704	370,165
Deferred taxes	27	10,558	6,642
		569,751	415,120
		932,724	**632,897**
Current liabilities			
Credit from banking corporations	11	15,432	17,251
Lease liabilities		53,830	47,216
Trade payables (liabilities to vendors, suppliers and service providers)	12	116,890	59,024 (*)
Current taxes payable		9,783	2,234
Financial derivatives	16	2,738	-
Accounts payable and debit balances	13	29,775	21,695 (*)
		228,448	147,420
Non-Current Liabilities			
Loans from banking corporations	14	20,622	19,295
Lease liabilities		486,126	344,162
Liabilities for employee benefits	17	1,936	1,964
		508,684	365,421
Equity	18		
Shareholders' equity		177,274	106,534
Non-controlling interests (minority rights)		18,318	13,522
Total equity		195,592	120,056
		932,724	**632,897**

* Reclassified.

March 14, 2021			
Financial statements approval date	Zehavit Cohen Chair of the Board	Uri Max Director and Co-CEO	Nir Dagan CFO

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Profit or Loss and Other Comprehensive Profit

	Note	For the Year Ending December 31		
		2020	2019	2018
		ILS 000's		
Revenues from sales	20	1,010,495	741,550	617,986
Cost of goods sold	21	651,562	448,003	375,040
Gross profit		358,933	293,547	242,946
Marketing and sales expenses	22	170,167	164,683 (*)	138,956 (*)
General and administrative expenses	23	33,782	26,566 (*)	22,404 (*)
Other income	25	(1,224)	(733)	-
Other expenses	25	5,479	1,499	1,682
Operating profit		150,729	101,532	79,904
Financing revenues	24	(1,118)	(601)	(45)
Financing expenses	24	20,400	10,998	1,721
Financing expenses for extraordinary transactions	1	13,276	-	-
Profits before income taxes		118,171	91,135	78,228
Taxes on income	27	30,542	20,861	19,414
Net profit		87,629	70,274	58,814
Total other comprehensive profit (loss):				
Amounts not to be reclassified to profit or loss:				
Remeasurement of defined benefit plan		(32)	(278)	380
Total comprehensive profit		87,597	69,996	59,194
Net profit attributable to:				
Equity holders of the Company		72,647	58,892	49,443
Non-controlling interests (minority rights)		14,982	11,382	9,371
		87,629	70,274	58,814
Total comprehensive profit attributable to:				
Equity holders of the Company		72,615	58,614	49,823
Non-controlling interests (minority rights)		14,982	11,382	9,371
		87,597	69,996	59,194
Net profit per share attributable to equity holders of the Company (ILS)	26			
Base net profit		0.51	0.41	0.35
Diluted net profit		0.51	0.41	0.35

(*) Reclassified.

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Changes in Equity

	Attributable to the Equity Holders of the Company								
	Share capital	Premium for shares	Reserve for share-based payments	Reserve for transactions with non-controlling right holders	Reserve for remeasurement of defined benefit plans	Profit balance	Total	Non-controlling interests (minority rights)	Total equity
	ILS 000's								
Balance as of January 1, 2018	- (*)	**36,526**	**-**	**-**	**(214)**	**49,868**	**86,180**	**16,424**	**102,604**
Net profit	-	-	-	-	-	49,443	**49,443**	9,371	**58,814**
Other comprehensive profit	-	-	-	-	380	-	**380**	-	**380**
Dividend to non-controlling interest holders	-	-	-	-	-	-	**-**	(12,825)	**(12,825)**
Dividend to equity holders of the Company	-	-	-	-	-	(25,000)	**(25,000)**	-	**(25,000)**
Balance as of December 31, 2018	**- (*)**	**36,526**	**-**	**-**	**166**	**74,311**	**111,003**	**12,970**	**123,973**
Impact of Initial Application of IFRS16 on January 1, 2019	-	-	-	-	-	(12,306)	**(12,306)**	(2,403)	**(14,709)**
Balance as of January 1, 2019, after initial application	**- (*)**	**36,526**	**-**	**-**	**166**	**62,005**	**98,697**	**10,567**	**109,264**
Net profit	-	-	-	-	-	58,892	**58,892**	11,382	**70,274**
Total other comprehensive loss	-	-	-	-	(278)	-	**(278)**	-	**(278)**
Acquisition of non-controlling interests (minority rights)	-	-	-	(777)	-	-	**(777)**	(494)	**(1,271)**
Dividend to non-controlling interest holders	-	-	-	-	-	-	**-**	(7,933)	**(7,933)**
Dividend to equity holders of the Company	-	-	-	-	-	(50,000)	**(50,000)**	-	**(50,000)**
Balance as of December 31, 2019	**- (*)**	**36,526**	**-**	**(777)**	**(112)**	**70,897**	**106,534**	**13,522**	**120,056**
Net profit	-	-	-	-	-	72,647	**72,647**	14,982	**87,629**
Total other comprehensive loss	-	-	-	-	(32)	-	**(32)**	-	**(32)**
Acquisition of non-controlling interests (minority rights)	-	-	-	(4,220)	-	-	**(4,220)**	(1,580)	**(5,800)**
Cost of share-based payments	-	-	2,345	-	-	-	**2,345**	-	**2,345**
Dividend to non-controlling interest holders	-	-	-	-	-	-	**-**	(8,606)	**(8,606)**
Balance as of December 31, 2020	**-**	**36,526**	**2,345**	**(4,997)**	**(144)**	**143,544**	**177,274**	**18,318**	**195,592**

(*) The balance is less than ILS 1 thousand.

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

	For the Year Ending December 31		
	2020	2019	2018
		ILS 000's	
Cash flows from current activities:			
Net profit	87,629	70,274	58,814
Adjustments required to present cash flows from ongoing operations (a)	72,370	26,338	(9,818)
Net cash deriving from operating activities	159,999	96,612	48,996
Cash Flows from Investment Activities			
Acquisition of fixed assets	(17,497)	(10,672)	(13,416)
Proceeds from realizing fixed assets	640	-	-
Investment in pledged deposits	-	-	(425)
Investment in short term deposits	(24,500)	-	-
Net cash used for investment activities	(41,357)	(10,672)	(13,841)
Cash Flows from Financing Activities			
Obtaining long-term loans from banking corporations	20,500	26,000	13,000
Repayment of long-term loans from banking corporations	(20,992)	(15,558)	(9,815)
Obtaining short-term loans from banking corporations	40,000	-	-
Repayment of short-term loans from banking corporations	(40,000)	-	-
Lease payments	(30,267)	(30,953)	-
Repayment of shareholder loans	-	-	(20,000)
Acquisition of non-controlling interests (minority rights)	(7,071)	-	-
Dividend paid to non-controlling interest holders	(8,606)	(13,112)	(12,825)
Dividend paid to equity holders of the Company	-	(50,000)	(25,000)
Net cash used in financing activities	(46,436)	(83,623)	(54,640)
Increase (decrease) in cash and cash equivalents	72,206	2,317	(19,485)
Balance of cash and cash equivalents at beginning of year	46,057	43,740	63,225
Balance of cash and cash equivalents at end of year	118,263	46,057	43,740

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

	For the Year Ending December 31		
	2020	2019	2018
		ILS 000's	
(A) **Adjustments required to present cash flows from ongoing operations**			
Adjustments to the profit or loss items:			
Depreciation and amortization	45,347	38,891	4,554
Financing expenses, net	29,882	10,397	1,676
Profit from impairing lease liabilities	(1,224)	(733)	-
Decrease in fair value of financial derivatives	2,676	-	-
Cost of share-based payments	2,345	-	-
Change in liabilities for employee benefits, net	(61)	264	114
Income taxes	30,542	20,861	19,414
Capital loss	866	1,499	1,692
	110,373	71,179	27,450
Changes in property and liability items:			
Increase in customers	(19,771)	(10,639)	(11,052)
Decrease (increase) in receivables and credit balances	(6,948)	(203)	963
Increase in inventory	(24,917)	(26,941)	(12,944)
Increase in trade payables (liabilities to vendors, suppliers and service providers)	57,866	20,576 (*)	5,128
Increase in creditors and debit balances	9,456	5,227 (*)	3,903
	15,686	(11,980)	(14,002)
Cash paid during the year for:			
Interest paid	(16,606)	(10,396)	(1,676)
Interest paid for extraordinary transactions	(13,276)	-	-
Taxes paid, net	(23,807)	(22,465)	(21,590)
Total adjustments required to present cash flows deriving from operating activities	72,370	26,338	(9,818)
(B) **Non-cash material activity:**			
Dividend declared for non-controlling interest holders	-	-	5,179
Recognition of a right-of-use asset against a lease liability	190,000	113,955	-
Impairment of a right-of-use asset against a lease liability	(8,429)	(8,016)	-
Acquisition of non-controlling interests through credit	-	1,271	-

(*) Reclassified.

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1: GENERAL

A. General description of the Group and its operations:

Max Stock Ltd. (hereinafter – the "Company") was incorporated in Israel as a private company on December 16, 2004. On November 17, 2015, the Company's name was changed to "Max Management Israel Ltd." and on March 10, 2020, its name was changed back to its current name - "Max Stock Ltd.". From incorporation, the Company has been engaged in a retail business through operating a national "discount" chain of stores trading under the name "Max - Fun Shopping" and "Max 20" which offers a range of household products at attractive prices. The Company operates branches throughout Israel through subsidiaries and franchisees.

B. Definitions:

In these financial statements –

Company	-	Max Stock Ltd.
Group	-	the Company and its consolidated companies.
Consolidated companies	-	companies controlled by the Company (as defined in IFRS 10) and whose financial statements are consolidated with the Company's financial statements.
Affiliate/s and/or Related party/ies	-	as defined in IAS 24.

C. Impact of COVID-19 on the Group's operations

The COVID-19 virus (the "Virus" or "COVID-19") pandemic emerged in China during Q1 2020 and subsequently spread to many countries around the world, including Israel. The spread of COVID-19 has had widespread micro and macro economic effects, which, only naturally, have materially impacted the Chain's operations. The COVID-19 restrictions included restrictions on movement, commerce and manpower being present at work-places.

Impact on the Company's stores and its employees

The Company's stores were closed at the end of Q1 and the Chain placed the store employees on unpaid leave. The stores reopened on April 19, 2020, together with the Israeli government easing restrictions and gradually reopening the economy over April-May 2020 under the conditions and guidelines mandated by the "Tav Hasagol" (purple standard).

During the period the Chain was closed, the Chain was materially adversely impacted due to the fact that it generated no revenues. The Company negotiated rental payment arrangements with all lessors for the month of April. Furthermore, in order to reduce the adverse impact on the Company's revenues during the period the chain was shut, the Company started importing medical equipment required for this period ("PPE Transactions"). These import activities partially alleviated some of the lost profits resulting from the shutdown of the Chain's stores in Q1.

NOTE 1: GENERAL (Continued)

C. Impact of COVID-19 on the Group's operations (Cont.)

Impact on the Company's stores and its employees (Cont.)

Towards the end of Q2 2020 and during Q3 2020, there was another wave of the virus, which led to the Government imposing additional restrictions (the "Second Shutdown"). Notwithstanding the restrictions, the Company's stores continued to operate during the Second Shutdown in accordance with the guidelines and regulations which enabled essential and other businesses defined in the regulations to continue to operate.

Commercial activity was partially reopened in Q4 2020 (including shops with street access and malls); however, as a result of increasing morbidity in Israel, another shutdown was introduced on December 27, 2020, with similar conditions as the Second Shutdown, i.e. - a shutdown of commerce (except for essential stores defined under the regulations) and the education system (the "Third Shutdown"). Despite additional restrictions being introduced during the Third Shutdown, the Company's stores continued to operate except for certain sections which were not defined as essential. On February 21, 2021, following the date of the report, the Israeli government allowed commerce to reopen under the "strict purple standard" guidelines.

As of the approval date of the financial statements, most commercial operations have been allowed to reopen and the Company's stores are operating as usual in full.

It should be noted that, by its very nature, the spread of COVID-19, its impact and scope are constantly changing and being assessed, and the Company has no control over it; therefore, the information, data and assessments made by the Chain and set forth in this report are based on the information available to the Company as of the approval date of the financial statements.

D. Transactions to sell protective equipment

Following the outbreak of COVID-19 and its impact in Israel, a great need arose and high demand was generated for personal protective equipment against the Virus by the general public and large institutional entities, including hospitals and governmental institutions. Due to a shortage in protective equipment, as said, including face masks, robes, and coveralls (hereinafter: "**PPE**"), during March-April 2020, the Company entered three (3) transactions to purchase and import PPE. As part of these transactions, third parties, including the Company's controlling shareholders (hereinafter: the "Additional Financers"), provided loans in order to complete the financing required for the execution of said transactions, and the Company was the party which executed the transactions, including purchasing the PPE from the Company's suppliers abroad, transporting the PPE by air to Israel, storing it and selling it to third parties. The customers of these transactions were mostly institutional and security entities. The Additional Financers were entitled to repayment of the loans provided by them and a yield (hereinafter: the "**Payments**"), determined according to the performance of the transaction and according to their relative share in the provision of the total financing for the transaction. The amount of the Payments has been included in the Financing Expenses line item in the Consolidated Statements of Profit or Loss and Other Comprehensive Profit.

As of the date of the Statement on the Financial Position, all the PPE has been sold and supplied to the customers, and no PPE inventory from these transactions has remained with the Company.

All loans from the Additional Financers have been repaid together with the Payments.

NOTE 1: GENERAL (Continued)

Presented below are the primary operating results included in the consolidated financial statements for the year ended December 31, 2020:

	ILS 000's (Unaudited)
Revenues from sales (1)	124,800
Cost of goods sold	110,456
Gross Profit	14,344
Payments as part of Financing Expenses (2)	13,276
Profit attributed to the Company	1,068

1. In one of the transactions detailed in this section, merchandise was sold to a third party from an African country. The recognition of this income was based on the Company's assessment regarding the most probable amount expected to be received from the customer considering the financial circumstances of said country and their impact on the customer's ability to pay the consideration set forth in the contract. As of December 31, 2020, and as of the approval date of the financial statements, payment of ILS 16,560 thousands of the consideration undertaken to be paid by said customer is still outstanding. As said, no revenue has been recognized for this amount. The Company assesses that this amount will not be received.

2. The share of the Payments of the Company's controlling shareholders as Additional Financers totaled a loss of ILS 50 thousand.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been consistently applied in the financial statements for all periods presented, except where stated otherwise.

A. Basis of presentation of the financial statements

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").
Furthermore, the financial statements have been prepared in conformity with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 5770-2010.

The Company's financial statements have been prepared on a cost basis, except for deferred tax assets and liabilities due to employee benefits.

B. The operating cycle

The Company's operating cycle is one year.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

C. Consolidated financial statements

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Potential voting rights are considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by all companies in the Group. Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

Non-controlling interests in subsidiaries represent the equity in subsidiaries not attributable, directly or indirectly, to a parent. Non-controlling interests are presented in equity separately from the equity attributable to the equity holders of the Company. Profit or loss and components of other comprehensive income are attributed to the Company and to non-controlling interests. Losses are attributed to non-controlling interests even if they result in a negative balance of non-controlling interests in the consolidated statement of financial position.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as a change in equity by adjusting the carrying amount of the non-controlling interests with a corresponding adjustment of the equity attributable to equity holders of the Company less / plus the consideration paid or received.

D. Functional currency, presentation currency and foreign currency

1. Functional/operational currency and presentation currency

   The Group's operating and presentation currency is ILS.

   The functional currency is the currency that best reflects the economic environment in which the Company operates and its transactions, it is determined separately for each company in the Group, and its financial position and operating results are measured according to that currency.

2. Transactions, assets and liabilities in foreign currency

   Transactions denominated in foreign currency are recorded upon initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at each reporting date into the functional currency at the exchange rate at that date. Exchange rate differences, other than those capitalized to qualifying assets or accounted for as hedging transactions in equity, are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currency and measured at cost are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency using the exchange rate prevailing at the date when the fair value was determined.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

D. Functional currency, presentation currency and foreign currency (Cont.)

3. CPI-linked money items

Monetary assets and liabilities linked to the changes in the Israeli Consumer Price Index ("Israeli CPI") are adjusted at the relevant index at each reporting date according to the terms of the agreement.

E. Cash equivalents

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of investment or with a maturity of more than three months, but which are redeemable on demand without penalty and which form part of the Group's cash management.

F. Shorts term deposits

Short-term bank deposits are deposits with an original maturity of more than three months from the date of investment and which do not meet the definition of cash equivalents. The deposits are presented according to their terms of deposit.

G. Inventory

Inventories are measured at the lower of cost and net realizable value. The cost of inventories comprises costs of purchase and costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and estimated costs necessary to make the sale. The Company periodically evaluates the condition and age of inventories and makes provisions for slow moving inventories accordingly.
Cost of inventories is determined as follows:

Purchased merchandise and products - according to the cost of purchase using the "first-in, first-out" method.

H. Fixed assets

Fixed assets are presented at cost plus direct acquisition costs, less accumulated depreciation, less impairment losses, and do not include current maintenance expenses.

Depreciation is calculated at equal annual rates based on the straight-line method over the useful life of the property, as follows:

	%
Motor vehicles	15
Office furniture and equipment	6-7
Computers and peripheral equipment	33
Leasehold improvements and installations	10

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

H. Fixed assets (Cont.)

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term (including the extension option held by the Group and intended to be exercised) and the useful life of the improvement. The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate. For a review of the impairment of fixed assets, see section M below.

An asset is impaired from the financial statements at the time of sale or when no economic benefits are expected from using the asset. Profit or loss from impairment of an asset (calculated as the difference between the net proceeds from the impairment and the amortized cost in the financial statements) is included in the income statement in the period in which the asset was impaired.

I. Taxes on income

Current or deferred taxes are recognized in profit or loss, except to the extent that they relate to items which are recognized in other comprehensive income or equity.

Current taxes

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date as well as adjustments required in connection with the tax liability in respect of previous years.

Deferred taxes

Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes. Deferred taxes are measured at the tax rate that is expected to apply when the asset is realized or the liability is settled, based on tax laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is not probable that they will be utilized. Deductible carryforward losses and temporary differences for which deferred tax assets had not been recognized are reviewed at each reporting date and a respective deferred tax asset is recognized to the extent that their utilization is probable.

Taxes that would apply in the event of the disposal of investments in investees have not been taken into account in computing deferred taxes, as long as the disposal of the investments in investees is not probable in the foreseeable future. Also, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been taken into account in computing deferred taxes, since the distribution of dividends does not involve an additional tax liability or since it is the Company's policy not to initiate distribution of dividends from a subsidiary that would trigger an additional tax liability.

Taxes on income that relate to distributions of an equity instrument and to transaction costs of an equity transaction are accounted for pursuant to IAS 12.

Deferred taxes are offset if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

J. Revenue Recognition

Revenue from contracts with customers is recognized when the control over the goods or services is transferred to the customer. The transaction price is the amount of the consideration that is expected to be received based on the contract terms, excluding amounts collected on behalf of third parties (such as taxes).

Revenue from the sale of goods

Revenue from sale of goods is recognized in profit or loss at the point in time when the control of the goods is transferred to the customer. Generally, control is transferred upon delivery of the goods to the customer.

Revenues from franchisee payments

Under agreements with franchisees, the Company is entitled to receive a monthly commission for the franchise services based on a percentage of the franchisees' sales turnover. Revenues from the payments are recognized on a regular basis over the term of the contract.

K. Leases

On January 1, 2019, the Company first applied International Financial Reporting Standard 16 - Leases (hereinafter the "Standard"). The Company elected to apply the provisions of the Standard using the modified retrospective method (without restatement of comparative data).

The accounting policy for leases applied from January 1, 2019, is as follows:
The Company accounts for a contract as a lease when the contract terms convey the right to control the use of an identified asset for a period of time in exchange for consideration.

1. The Group as a lessee

For leases in which the Company is the lessee, the Company recognizes on the commencement date of the lease a right-of-use asset and a lease liability, excluding leases whose term is up to 12 months and leases for which the underlying asset is of low value in which the Company chose to recognize the lease payments as an expense in a straight line profit or loss over the period of the lease.

Leases which entitle employees to a company car as part of their employment terms are accounted for as employee benefits in accordance with the provisions of IAS 19 and not as subleases.

On the commencement date, the lease liability includes all unpaid lease payments discounted at the interest rate implicit in the lease, if that rate can be readily determined, or otherwise using the Company's incremental borrowing rate. After the commencement date, the Company measures the lease liability using the effective interest rate method.

On the commencement date, the right-of-use asset is recognized in an amount equal to the lease liability plus lease payments already made on or before the commencement date and initial direct costs incurred.
The right-of-use asset is measured applying the cost model and depreciated over the shorter of its useful life and the lease term. The Company tests for impairment of the right-of-use asset whenever there are indications of impairment pursuant to the provisions of IAS 36.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

K. Leases (Cont.)

2. Variable lease payments that depend on an index

On the commencement date, the Company uses the index rate prevailing on the commencement date to calculate the future lease payments.

For leases in which the Company is the lessee, the aggregate changes in future lease payments resulting from a change in the index are discounted (without a change in the discount rate applicable to the lease liability) and recorded as an adjustment of the lease liability and the right-of-use asset, only when there is a change in the cash flows resulting from the change in the index (that is, when the adjustment to the lease payments takes effect).

3. Lease extension and termination options

A non-cancelable lease term includes both the periods covered by an option to extend the lease when it is reasonably certain that the extension option will be exercised and the periods covered by a lease termination option when it is reasonably certain that the termination option will not be exercised.
In the event of any change in the expected exercise of the lease extension option or in the expected non-exercise of the lease termination option, the Company remeasures the lease liability based on the revised lease term using a revised discount rate as of the date of the change in expectations. The total change is recognized in the carrying amount of the right-of-use asset until it is reduced to zero, and any further reductions are recognized in profit or loss.

4. Lease modifications

If a lease modification does not reduce the scope of the lease and does not result in a separate lease, the Company remeasures the lease liability based on the modified lease terms using a revised discount rate as of the modification date and records the change in the lease liability as an adjustment to the right-of-use asset.
If a lease modification reduces the scope of the lease, the Company recognizes a gain or loss arising from the partial or full reduction of the carrying amount of the right-of-use asset and the lease liability. The Company subsequently remeasures the carrying amount of the lease liability according to the revised lease terms, at the revised discount rate as of the modification date and records the change in the lease liability as an adjustment to the right-of-use asset.

The accounting policy for leases applied until December 31, 2018, is as follows:

The criteria for classifying leases as finance or operating leases depend on the substance of the agreements and are made at the inception of the lease in accordance with the following principles as set out in IAS 17.

The Group as a lessee

Operating lease

Leases in which substantially all the risks and rewards of ownership of the leased asset are not transferred to the Group are classified as operating leases. Lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

L. Impairment of non-financial assets

The Company evaluates the need to record an impairment of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable.
If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognized in profit or loss.

M. Financial Instruments

1. Financial assets

Financial assets are measured upon initial recognition at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

The Company classifies and measures debt instruments in the financial statements based on the following criteria:
(a) The Company's business model for managing financial assets; and
(b) The contractual cash flow terms of the financial asset.

Debt instruments are measured at amortized cost when:
The Company's business model is to hold the financial assets in order to collect their contractual cash flows, and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
After initial recognition, the instruments in this category are measured according to their terms at amortized cost using the effective interest rate method, less any provision for impairment.
On the date of initial recognition, the Company may irrevocably designate a debt instrument as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency, such as when a related financial liability is also measured at fair value through profit or loss.

2. Impairment of financial assets

The Company evaluates at the end of each reporting period the loss allowance for financial debt instruments which are not measured at fair value through profit or loss. The Company distinguishes between two types of loss allowances:

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

M. Financial Instruments (Cont.)

2. Impairment of financial assets (Cont.)

a) Debt instruments whose credit risk has not increased significantly since initial recognition, or whose credit risk is low - the loss allowance recognized in respect of this debt instrument is measured at an amount equal to the expected credit losses within 12 months from the reporting date (12-month ECLs); or
b) Debt instruments whose credit risk has increased significantly since initial recognition, and whose credit risk is not low - the loss allowance recognized is measured at an amount equal to the expected credit losses over the instrument's remaining term (lifetime ECLs).

The Company has short-term financial assets such as trade receivables in respect of which the Company applies a simplified approach and measures the loss allowance in an amount equal to the lifetime expected credit losses.

An impairment loss on debt instruments measured at amortized cost is recognized in profit or loss with a corresponding loss allowance that is offset from the carrying amount of the financial asset, whereas the impairment loss on debt instruments measured at fair value through other comprehensive income is recognized in profit or loss with a corresponding loss allowance that is recorded in other comprehensive income and not as a reduction of the carrying amount of the financial asset in the statement of financial position.

3. Derecognizing financial assets

A financial asset is derecognized only when:

a) The contractual rights to the cash flows from the financial asset have expired; or
b) The Company has transferred substantially all the risks and rewards deriving from the contractual rights to receive cash flows from the financial asset or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset; or
c) The Company has retained its contractual rights to receive cash flows from the financial asset but has assumed a contractual obligation to pay the cash flows in full without material delay to a third party.

4. Financial liabilities

Financial liabilities measured at amortized cost
Financial liabilities are initially recognized at fair value less transaction costs that are directly attributable to the issue of the financial liability.
After initial recognition, the Company measures all financial liabilities at amortized cost using the effective interest rate method, except for financial liabilities at fair value through profit or loss such as derivatives.

5. Impairment of financial liabilities

A financial liability is derecognized only when it is extinguished, that is when the obligation specified in the contract is discharged or canceled or expires.
A financial liability is extinguished when the debtor discharges the liability by paying in cash, other financial assets, goods or services; or is legally released from the liability.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

M. Financial Instruments (Cont.)

5. Impairment of financial liabilities (Cont.)

When there is a modification in the terms of an existing financial liability, the Company evaluates whether the modification is substantial, taking into account qualitative and quantitative information. If the terms of an existing financial liability are substantially modified or a liability is exchanged for another liability from the same lender with substantially different terms, the modification or exchange is accounted for as an extinguishment of the original liability and the recognition of a new liability. The difference between the carrying amounts of the above liabilities is recognized in profit or loss. If the modification in the terms of an existing liability is not substantial or if a liability is exchanged for another liability from the same lender whose terms are not substantially different, the Company recalculates the carrying amount of the liability by discounting the revised cash flows at the original effective interest rate and any resulting difference is recognized in profit or loss.

6. Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position if there is a legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously. The right of set-off must be legally enforceable not only during the ordinary course of business of the parties to the contract but also in the event of bankruptcy or insolvency of one of the parties. In order for the right of set-off to be currently available, it must not be contingent on a future event, there may not be periods during which the right is not available, or there may not be any events that will cause the right to expire.

N. Liabilities for employee benefits

The Group has several employee benefit plans:

1. Short-term employee benefits

Short-term employee benefits are benefits that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services. These benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

2. Post-employment benefits

The plans are normally financed by contributions to insurance companies and classified as defined contribution plans or as defined benefit plans.

The Group has defined contribution plans pursuant to section 14 to the Severance Pay Law under which the Group pays fixed contributions and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

N. Liabilities for employee benefits (Cont.)

2. Post-employment benefits (Cont.)

Contributions to the defined contribution plan in respect of severance or retirement pay are recognized as an expense when contributed concurrently with performance of the employee's services.

The Group also operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law. According to the Law, employees are entitled to severance pay upon dismissal or retirement.

In respect of its severance pay obligation to certain of its employees, the Company makes current deposits in pension funds and insurance companies (the "plan assets"). Plan assets comprise assets held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the Group's own creditors and cannot be returned directly to the Group.

O. Earnings (loss) per share

Earnings per share are calculated by dividing the net income attributable to equity holders of the Company by the weighted number of ordinary shares outstanding during the period. Potential Ordinary shares are included in the computation of diluted earnings per share when their conversion decreases earnings per share from continuing operations. Potential ordinary shares that are converted during the period are included in diluted earnings per share only until the conversion date and from that date in basic earnings per share. The Company's share of earnings of investees is included based on its share of earnings per share of the investees multiplied by the number of shares held by the Company.

P. Provisions/Allowances

A provision in accordance with IAS 37 is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects part or all of the expense to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense is recognized in the statement of profit or loss net of any reimbursement.

Following are the types of provisions included in the financial statements:

Legal claims

A provision for claims is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources embodying economic benefits will be required by the Group to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Q. Share-based payment transactions

The Company's employees / other service providers are entitled to remuneration in the form of equity-settled share-based payment transactions. The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at grant date. The fair value is determined using an acceptable option pricing model.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Q. Share-based payment transactions (Cont.)

The cost of equity-settled transactions is recognized in profit or loss together with a corresponding increase in equity during the period which the performance and/or service conditions are to be satisfied ending on the date on which the relevant employees become entitled to the award (hereinafter - the "vesting period"). The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

R. Changes in accounting policies - initial application of new financial reporting and accounting standards and amendments to existing financial reporting and accounting standards

1. Amendment to IFRS 3 - Business Combinations

In October 2018, the IASB issued an amendment to the definition of a "business" in IFRS 3, "Business Combinations" (the "Amendment").

The Amendment consists of a clarification that to meet the definition of a “business”, an integrated set of activities and assets must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, the Amendment clarifies that a “business” may also exist without all the inputs and substantive processes required to create output. The Amendment introduces an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The Amendment is to be applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020.

The initial application of the Amendment is not anticipated to have a material impact on the Company.

2. Amendment to IFRS 16 - Leases

In light of the crisis ensuing the spread of COVID-19, in May 2020 the IASB published an amendment to IFRS 16 - Leases (hereinafter - the Amendment).

The objective of the Amendment is to enable lessees to apply a practical expedient whereby changes in lease payments resulting from the COVID-19 crisis will not be treated as lease modifications but rather as variable lease payments. The Amendment only applies to lessees.

The Amendment will only apply to changes in lease payments which **cumulatively** satisfy the following three conditions:

- The amended future lease payments are materially identical to or less than the payments the lessee was required to pay prior to the modification;
- The decrease in lease payments is for payments which refer to the period prior to June 30, 2021; and
- There has been no material change to the other terms and conditions in the lease agreement.
- The Amendment will be applied for annual periods commencing on June 1, 2020, and will apply retroactively with earlier application permitted.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

R. Changes in accounting policies - initial application of new financial reporting and accounting standards and amendments to existing financial reporting and accounting standards (Cont.)

2. Amendment to IFRS 16 – Leases (Cont.)

The Company chose to apply the Amendment early and to apply it to all the modifications to lease payments arising from the COVID-19 crisis. Accordingly, in light of a waiver of lease payments for April 2020 totaling approximately ILS 1.5 million, in 2020 the Company recognized a decrease in amortization expenses in the same amount which has been included in the sales and marketing expenses item.

NOTE 3: SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

In the process of applying the significant accounting policies, the Group has made the following judgments which have the most significant effect on the amounts recognized in the financial statements:

A. Judgments

Determining the fair value of share-based payment transactions

The fair value of share-based payment transactions is determined upon initial recognition by an acceptable option pricing model. The inputs to the model include share price, exercise price and assumptions regarding expected volatility, expected life of share option and expected dividend yield.

Discount rate for a lease liability

When the Company is unable to readily determine the discount rate implicit in a lease in order to measure the lease liability, the Company uses an incremental borrowing rate. That rate represents the rate of interest that the Company would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment. When there are no financing transactions that can serve as a basis, the Company determines the incremental borrowing rate based on its credit risk, the lease term and other economic variables deriving from the lease contract's conditions and restrictions. The Company is assisted by an external valuation expert in determining the incremental borrowing rate.

B. Estimates and assumptions

The preparation of the financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues and expenses. Changes in accounting estimates are reported in the period of the change in estimate.
The key assumptions made in the financial statements concerning uncertainties at the reporting date and the critical estimates computed by the Group that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Legal claims

In estimating the likelihood of outcome of legal claims filed against the Company and its investees, the companies rely on the opinion of their legal counsel.

NOTE 3: SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS (Cont.)

B. Estimates and assumptions (Cont.)

Legal claims (Cont.)

These estimates are based on the legal counsel's best professional judgment, taking into account the stage of proceedings and legal precedents in respect of the different issues. Since the outcome of the claims will be determined in courts, the results could differ from these estimates.

Deferred tax assets

Deferred tax assets are recognized for unused carryforward tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the timing and level of future taxable profits, its source and the tax planning strategy.

Lease extension and/or termination options

In evaluating whether it is reasonably certain that the Company will exercise an option to extend a lease or not exercise an option to terminate a lease, the Company considers all relevant facts and circumstances that create an economic incentive for the Company to exercise the option to extend or not exercise the option to terminate such as: significant amounts invested in leasehold improvements, the significance of the underlying asset to the Company's operation and whether it is a specialized asset, the Company's past experience with similar leases, etc.
After the commencement date, the Company reassesses the term of the lease upon the occurrence of a significant event or a significant change in circumstances that affects whether the Company is reasonably certain to exercise an option or not exercise an option previously included in the determination of the lease term, such as significant leasehold improvements that had not been anticipated on the lease commencement date, sublease of the underlying asset for a period that exceeds the end of the previously determined lease period, etc.

NOTE 4: DISCLOSURE OF NEW IFRS STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION

A. Amendments to IAS 1 Presentation of Financial Statements

In January 2020 the IASB released an amendment to IAS 1 regarding the requirements for the classification of liabilities as current or non-current (hereinafter - the Amendment).

The Amendment clarifies the following matters:

- The nature of the unconditional right to defer settlement;
- The right to defer must exist on the end of the reporting period;
- Classification is unaffected by the probability/expectations about whether the entity will exercise the right to defer;
- Only in the event the derivative feature of the convertible liability is an equity instrument will the terms of the liability not be impacted by its classification.

NOTE 4: DISCLOSURE OF NEW IFRS STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION (Cont.)

A. Amendments to IAS 1 Presentation of Financial Statements (Cont.)

The Amendment is applied to the annual reporting periods commencing on January 1, 2023 or thereafter. The Amendment was applied retrospectively.

The Company is examining the impact of the Amendment on its existing loan agreements.

NOTE 5: CASH AND CASH EQUIVALENTS

	As of December 31	
	2020	2019
	ILS 000's	
Israeli currency (Shekels)	112,867	41,755
Foreign currency	2,073	815
Cash registers	3,323	3,487
	118,263	**46,057**

NOTE 6: CUSTOMERS

	As of December 31	
	2020	2019
	ILS 000's	
Open accounts in Israel	11,618	5,309
Credit cards and collection checks (*)	62,122	48,660
	73,740	**53,969**

(*) Part of the cash flow from credit cards has been given as a security interest to guarantee some of the loans obtained from banking corporations by the subsidiaries. For further details see Note 15 - contingent liabilities, guarantees, commitments and charges.

NOTE 7: RECEIVABLES AND OUTSTANDING BALANCES

	As of December 31	
	2020	2019
	ILS 000's	
Advances to suppliers/vendors	15,329	9,009
Governmental institutions	1,781	974
Prepaid expenses	406	796
Other receivables	857	646 (*)
	18,373	**11,425**

(*) Reclassified.

NOTE 8: INVENTORY

A. Composition

	As of December 31	
	2020	2019
	ILS 000's	
Inventory of finished goods	110,422	93,467
Merchandise in transit	16,850	8,888
	127,272	**102,355**

B. Additional information

The allowance for writing down inventory recorded in the financial statements amounted to ILS 7,588 thousands and ILS 3,750 thousands for the year ended December 31, 2020 and 2019, respectively.

NOTE 9: FIXED ASSETS, NET (PROPERTY, PLANT AND EQUIPMENT)

	Motor vehicles	Computers and peripheral equipment	Office furniture and equipment	Leasehold improvements and installations	Total
			ILS 000's		
Cost					
Balance as of January 1, 2020	188	4,585	23,496	26,460	54,729
Additions during the year	-	3,812	3,364	10,321	17,497
Impairments during the year	-	(241)	(2,814)	(1,315)	(4,370)
Balance as of December 31, 2020	188	8,156	24,046	35,466	67,856
Accumulated depreciation					
Balance as of January 1, 2020	143	1,850	8,110	6,473	16,576
Additions during the year	21	1,527	1,923	3,344	6,815
Impairments during the year	-	(129)	(1,831)	(904)	(2,864)
Balance as of December 31, 2020	164	3,248	8,202	8,913	20,527
Depreciated cost as of December 31, 2020	24	4,908	15,844	26,553	47,329

	Motor vehicles	Computers and peripheral equipment	Office furniture and equipment	Leasehold improvements and installations	Total
			ILS 000's		
Cost					
Balance as of January 1, 2019	188 (*)	2,654 (*)	21,278	22,526 (*)	46,646
Additions during the year	-	1,931	3,713	5,028	10,672
Impairments during the year	-	-	(1,495)	(1,094)	(2,589)
Balance as of December 31, 2019	188	4,585	23,496	26,460	54,729
Accumulated depreciation					
Balance as of January 1, 2019	119 (*)	1,081 (*)	6,885 (*)	4,469 (*)	12,554
Additions during the year	24	769	1,934	2,368	5,095
Impairments during the year	-	-	(709)	(364)	(1,073)
Balance as of December 31, 2019	143	1,850	8,110	6,473	16,576
Depreciated cost as of December 31, 2019	45	2,735	15,386	19,987	38,153

(*) Reclassified.

NOTE 10: LEASES

The Company has lease agreements that include leases of structures used to conduct the Company's ongoing operations.
The lease agreements are for a period of 4-20 years. To apply international financial reporting standard IFRS 16 - leases, the Company assumed that it would exercise the extension options in the lease agreements.

A. Disclosures in respect of right-of-use assets

	Land ILS 000's
Cost	
Balance as of January 1, 2020	471,528
Additions during the year	
Additions to right-of-use assets due to new leases in the period	191,581
Updates to right-of-use assets for indexation	(1,581)
Impairments during the year	
Impairment of right-of-use assets for leases terminated during the period	(19,901)
Balance as of December 31, 2020	641,627
Accumulated depreciation	
Balance as of January 1, 2020	101,363
Additions during the year	
Depreciation and amortization	40,032
Impairments during the year	
Impairment of right-of-use assets	(11,472)
Balance as of December 31, 2020	129,923
Depreciated cost as of December 31, 2020	511,704
Depreciated cost as of December 31, 2019	370,165

NOTE 10: LEASES (Cont.)

	Land ILS 000's
Cost	
Balance as of January 1, 2019	379,510
Additions during the year	
Additions to right-of-use assets due to new leases in the period	111,878
Updates to right-of-use assets for indexation	2,077
Impairments during the year	
Impairment of right-of-use assets for leases terminated during the period	(21,937) (*)
Balance as of December 31, 2019	471,528
Accumulated depreciation	
Balance as of January 1, 2019	81,488
Additions during the year	
Depreciation and amortization	33,796
Impairments during the year	
Impairment of right-of-use assets	(13,921) (*)
Balance as of December 31, 2019	101,363
Depreciated cost as of December 31, 2019	370,165
Depreciated cost as of January 1, 2018	-

(*) Reclassified.

B. Details of leases

	For the Year Ending December 31		
	2020	2019	2018
	ILS 000's		
Interest expenses on lease liabilities	15,411	9,709	-
Total negative cash flow for leases	45,678	40,662	-

C. Analysis of maturity dates of lease liabilities – see Note 16 – Financial instruments.

NOTE 10: LEASES (Cont.)

D. Details of material lease agreements

1) On April 10, 2016, the Company executed an agreement with a third-party whereby the lessor will build, for the use of the Company, on an area leased by the lessor, a warehouse and gallery used as offices over a total area of approximately 15,031 sqm (hereinafter: the "**Property**").

   Under the agreement, the Company will lease the Property from the lessor for a period of 10 years from the date of delivery, with the monthly rental fees linked to the Consumer Price Index, as follows:

   a. From the beginning of the lease period until the end of the second year of the lease, a total of ILS 22.41 per month per sqm in the warehouse area and a total of ILS 16.23 per month per sqn in the gallery area.
   b. From the beginning of the third year of the lease and until the end of the tenth year of the lease, a total of ILS 29 per month per sqm in the warehouse area and a total of ILS 21 per month per sqm included in the gallery area.

   At the end of the lease period, the Company has an option to extend the agreement for an additional period of 10 years with the rental fees for that period remaining the same as the rental fees described above in Section 2 with a real increase of 5%.

2) On November 17, 2019, the Company signed another agreement with that same third party whereby the Company will lease from it an additional area including a warehouse, gallery, and yard with an area of approximately 13,000 sqm (hereinafter: the "**Additional Property**").

   Under the agreement, the Company will lease the Additional Property from the lessor for a period of 5 years from the date of delivery, with the monthly rental fees being ILS 280,000 and linked to the Consumer Price Index.

   At the end of the lease period, the Company has three options to extend the agreement for additional periods of 5 years each, with the rental fees for that period being the same as the rental fees described above with a real increase of 5%.

NOTE 11: CREDIT FROM BANKS

	As of December 31	
	2020	2019
	ILS 000's	
Current maturities of long-term loans	15,432	17,251
	15,432	**17,251**

As security interests given to guarantee some of the loans from banking corporations, see Note 15 - contingent liabilities, guarantees, commitments and charges.

NOTE 12: LIABILITIES FOR TRADE PAYABLES

	As of December 31	
	2020	2019
	ILS 000's	
Open accounts in Israel	104,552	48,392 (*)
Open accounts abroad	11,804	9,179
Credit cards and checks payable	534	1,453 (*)
	116,890	**59,024**

(*) Reclassified.

NOTE 13: CREDITORS AND DEBIT BALANCES

	As of December 31	
	2020	2019
	ILS 000's	
Employees and institutions for payroll	16,827	12,969 (*)
Expenses payable	6,430	1,267 (*)
Governmental institutions	2,244	3,180
Other payables	1,092	2,463
Affiliates/Related parties	3,182	1,816 (*)
	29,775	**21,695**

(*) Reclassified.

NOTE 14: LOANS FROM BANKS

A. Composition:

	Rate Nominal interest rate*	As of December 31	
		2020	2019
	%	ILS 000's	
Loans from banking corporations	Prime + 0.2-0.7	36,054	36,546
Less current maturities		15,432	17,251
Long-term loans from banking corporations		**20,622**	**19,295**

* Approximate to the effective interest rate.

NOTE 14: LOANS FROM BANKS (Cont.)

B. The maturity dates of the loans in the financial statements are as follows:

	As of December 31	
	2020	2019
	ILS 000's	
First Year	15,432	17,251
Second Year	13,713	8,869
Third Year	6,742	7,419
Fourth Year	167	3,007
	36,054	**36,546**

As security interests given to guarantee some of the loans from banking corporations, see Note 15 - contingent liabilities, guarantees, commitments and charges.

NOTE 15: CONTINGENT LIABILITIES, GUARANTEES, COMMITMENTS AND CHARGES

Contingent Liabilities

A. In 2017, a tortious subrogation claim for approximately ILS 1 million was initiated against the Company in the Haifa Magistrate Court by an insurance company on behalf of a property owner who incurred damages from a fire that allegedly started in a property used by one of the Company's franchisees. The claim was initiated against the Company alleging that it had acted negligently by allowing its franchisee, who is in possession of said property, to operate the branch without the required licenses, permits and insurances, as required under the franchise agreement. The Company filed a statement of defense and a third-party notice against the franchisee in March 2018. The Company subsequently filed a third-party notice against the lessor of the property. The parties were referred to an unsuccessful mediation process. Prior to the pretrial, which took place on October 10, 2019, the lessor of the property submitted its statement of defense, as well as a third-party notice, *inter alia*, against the Company, with similar arguments to those raised by the plaintiff. On July 16, 2020, a statement of defense was submitted in response to the third-party notice. Affidavits for examination in chief were filed by the defendants in the case. Hearings have been scheduled for May 31, 2021, June 7, 2021 and June 14, 2021. The Company has assessed and based on an opinion obtained from the Company's legal counsel that it is not possible to estimate the risk of the proceedings at this stage.

B. In July 2018, the Company filed a claim for ILS 2 million (pending accounts and for the purpose of the court fee) with the District Court of Tel Aviv-Yafo against its former Sderot and Bat Yam franchisees, alleging that the franchisees' obligations, which they are jointly and severally subject to, were breached by one of the shareholders. Therefore, their franchise agreements were terminated, but notwithstanding, the franchisees continued to use the Company's trademarks and commercial characteristics; thereby, among other things, they caused the Company significant damages, harmed its goodwill, unduly enriched themselves, committed the tort of passing off and misled its consumers. Some of the defendants submitted a counter-claim for ILS 10 million (solely for the purpose of the court fee) against the Company and its shareholder, Uri Max, alleging unlawful termination of the franchise agreements and causing damages and defaming the franchisees and harming their goodwill. In a pretrial hearing held on October 10, 2019, the parties were referred to mediation which concluded unsuccessfully on June 24, 2020. The court has not yet scheduled a subsequent hearing date.

NOTE 15: CONTINGENT LIABILITIES, GUARANTEES, COMMITMENTS AND CHARGES (Cont.)

Contingent Liabilities (Cont.)

The Company has assessed and based on an opinion obtained from the Company's legal counsel, that in light of the preliminary stage of the lawsuit after only the court pleadings have been filed, it is not possible to assess the prospects of the claim and the risk therein at this stage.

C. Concurrently with the proceedings set forth above in paragraph "b" and as a corollary thereto, in March 2019 the Company initiated legal proceedings in the District Court of Tel Aviv-Yafo to enforce the separation mechanism stipulated in the shareholders' agreement between the Company and the company controlled by the shareholder of the franchises who breached the confidentiality and non-competition obligations. These breaches of the franchise agreements also constitute a breach of said shareholders' agreement, and therefore the Company is petitioning to enforce the separation mechanism whereby it may purchase the defendant's shares in Max Ashdod. Pleadings were filed and a pretrial hearing was held on January 28, 2020, during which dates were scheduled for the completion of preliminary proceedings. In February 2021 the parties exchanged general discovery affidavits and an interrogatory, and letters requesting specific discovery. This proceeding is not included in the mediation; however, the mediation also addressed this proceeding. The mediation, as stated above in paragraph "b", was unsuccessful. Similarly, a motion for summary dismissal was filed by the defendants due to non-payment of an adequate court fee, which was dismissed by the court which ordered the Company to submit a clarification regarding the value of the consideration the Company wishes to pay the defendants for the shares in order to calculate the amount of the court fee. The clarifications and responses were submitted by the parties, including the position of the State Attorney General which determined that it is unable to calculate the value of the shares. In accordance with the court ruling dated February 28, 2021, the Company will submit a valuation of the company it controls. The Company has assessed and based on an opinion obtained from the Company's legal counsel, that in light of the preliminary stage of the lawsuit, it is not possible to assess the prospects of the claim.

D. On August 11, 2020, the Company, a number of its subsidiaries, franchisees and some of its suppliers, were served with a motion to certify a class action filed in the District Court claiming an estimated amount of approximately ILS 17 million. The plaintiffs allege that the Company marketed products in contravention of the Consumer Protection Law, 5741-1981, by selling products whose user manuals and accompanying warnings were in a foreign language and had not been translated into Hebrew, thereby being negligent against a potential plaintiff class, unlawfully enriching themselves at their expense and undermining its customers' autonomous desire. On February 4, 2021, the Company submitted in its name and on behalf of its subsidiaries and franchises, a response to the motion to certify a class action in which it rejected the applicants' arguments and raised many arguments against the very fact that the motion had been filed, and against the fact that the applicants raised the same arguments with respect to the same products both against the Company and against the suppliers of same products. Concurrently, and in accordance with the indemnification provisions in the Company's agreements with them, the Company informed the suppliers that it will view them as responsible for any damages it may be ordered to pay in this law suit. A preliminary hearing on the motion is scheduled for March 24, 2021. The Company has assessed and based on an opinion obtained from the Company's legal counsel, that due to the preliminary stage of the proceedings it is not possible assess the prospects of the claim.

E. On November 10, 2020, the Company and approximately 9 of its subsidiaries and franchisees were served with a motion to certify a class action which was submitted to the Netanya Magistrates Court for an estimated amount of approximately ILS 2 million.

NOTE 15: CONTINGENT LIABILITIES, ENGAGEMENTS, GUARANTEES AND CHARGES (Cont.)

Contingent Liabilities (Cont.)

The applicant alleges that the Company marketed products which by law it is required to mark their quantity without specifying their price per unit of measurement as required under the Consumer Protection Regulations (Price Per Unit Measurement), 5768-2008. The Company has assessed and based on an opinion obtained from the Company's legal counsel, that due to the preliminary stage of the proceedings it is not possible assess the prospects of the claim.

For the legal claims described above, the Company's management is of the opinion that the Company has recorded a reasonable allowance to cover its contingent liabilities.

Liabilities whose treatment concluded in the reporting period

F. In February 2019, the Company filed an opposition to the Commissioner of Trademarks against trademarks applications filed by a third party. Concurrently, the third party filed oppositions to two trademark applications filed by the Company. On May 25, 2020, the parties executed a settlement agreement, regulating the manner the parties may use the trademarks. The Company and the third-party retracted their oppositions and the Company's trademarks were registered.

G. In August 2019, a criminal complaint was filed against the Company, two of its subsidiaries, the Company's directors, and 3 of the Company's suppliers which import toys, alleging the infringement of the proprietary rights belonging to Mattel, the proprietary owner of Barbie dolls, and allegedly a realistic imitation of the original Barbie dolls, including pictures on the doll's packaging. Pursuant to an agreement between the Company and the complainant, on September 24, 2019, the Company and the directors were stricken from the complaint. Following discussion between the complainant and the other respondents, on October 18, 2020, the complaint was withdrawn.

H. On September 10, 2020, a letter of demand was sent to the Company, to Uri Max and Uri Max Ltd. (hereinafter jointly in this section: "Uri Max"), by one of the additional financers of the personal protective equipment sale transaction (see Note 1D). The letter includes arguments raised against the Company and against Uri Max regarding various violations, which have been denied by the Company and by Uri Max, of the personal protective equipment agreements, including in connection with the settlement of accounts between the parties pursuant to the agreements. In the letter of demand it is claimed that all the additional financers (save for the controlling shareholders) are owed an amount of approximately ILS 9.6 million from the Company including an amount of approximately ILS 3.8 million which is owed to the party making the claim.

   On September 11, 2020, the parties arrived at an agreement whereby the additional financers retracted all their arguments against the Company for a payment of approximately ILS 2.6 million, and against payment to Uri Max, for a payment of ILS 580 thousands which will be made by him. The impact of the payment made by the Company on its operating results for 2020, was approximately ILS 1.6 million. This amount was included in the financing expenses line item in the consolidated statements on profit and loss and other comprehensive profit.

Engagements

Agreements with related parties

See Note 28 – Transactions with related parties.

NOTE 15: CONTINGENT LIABILITIES, ENGAGEMENTS, GUARANTEES AND CHARGES (Cont.)

Guarantees and Charges

As of December 31, 2020, the Group has provided guarantees in favor of third-parties for the Group's lease agreements totaling approximately ILS 12,591 thousands.

In order to secure some of the long-term loans granted to subsidiaries from a banking corporation, first-rank fixed pledges were registered in favor of the bank over part of the contractual rights to receive funds owed to the subsidiaries by credit companies. The total balance of loans as of December 31, 2020, is approximately ILS 17 million.

To secure long-term loans granted to the Company by a banking corporation, two of the shareholders each provided a limited personal guarantee of ILS 16.85 million in favor of the financing bank. During May 2020, the Company and its shareholders reached an agreement with the banking corporation whereby the personal guarantees provided by them were removed against the creation of a general floating charge on the Company's assets. On December 6, 2020, the Company came to an agreement with the banking corporation to remove the general charge described above. The total balance of loans as of December 31, 2020, is approximately ILS 19 million.

NOTE 16: FINANCIAL INSTRUMENTS

A. Financial assets

	As of December 31	
	2020	2019
	ILS 000's	
Financial assets at amortized cost		
Cash, deposits, customers, receivables and debtors	235,036	111,611
Total current	234,876	111,451
Total non-current	160	160

NOTE 16: FINANCIAL INSTRUMENTS (Cont.)

B. Financial liabilities

	As of December 31	
	2020	2019
	ILS 000's	
Financial liabilities at fair value through profit or loss		
Financial derivatives	2,738	-
Total financial liabilities at fair value through profit or loss	2,738	-
Other financial liabilities at amortized cost		
Loans and credits from banks	36,054	36,546
Lease liabilities	539,956	391,378
Total other financial liabilities at amortized cost	576,010	427,924
Total current	69,262	64,467
Total non-current	506,748	363,457

C. Changes in liabilities arising from financing activities

	Long-term loans	Lease liabilities	Total liabilities arising from financing activities
Balance as of January 1, 2018	22,919	-	22,919
Cash flow	3,185	-	3,185
Balance as of December 31, 2018	26,104	-	26,104
Initial application of IFRS 16	-	317,125	317,125
Cash flow	10,442	(30,953)	(20,511)
Recognition of lease liabilities, net	-	105,206	105,206
Balance as of December 31, 2019	36,546	391,378	427,924
Cash flow	(492)	(30,267)	(30,759)
Recognition of lease liabilities, net	-	178,845	178,845
Balance as of December 31, 2020	36,054	539,956	576,010

NOTE 16: FINANCIAL INSTRUMENTS (Cont.)

D. Financial risk management objectives and policies

The Group's activities expose it to various financial risks, such as market risk (foreign currency risk, index risk, and interest rate risk), credit risk and liquidity risk. The Group's general risk management plan focuses on minimizing potential adverse effects on the Group's financial performance.

Financial risk management is regularly and routinely scrutinized by the CFO of the Group, in accordance with a policy approved by the board of directors. The board provides principles for overall risk management, as well as policies specific to certain exposures to risks, such as exchange rate risk, interest rate risk, and credit risk. The chairman of the Group's board of directors regularly reports on market risk management, and decisions on this matter are jointly made by the chairman of the board of directors, the Group's CFO and controller. The Group's board of directors reports on risk management once quarterly during board meetings convened for ongoing financial reporting.

1. Market risk

a. Exchange rate risk
With the application of International Financial Reporting Standards (IFRS) as of January 1, 2016, and determining the Group's operating currency in ILS, exposures are measured for changes in the USD exchange rate and other currencies in which the Company operates. Accordingly, the Company is exposed to exchange rate risk arising from exposure to various currencies as a result of the fact that some of the Company's expenses are in foreign currency (mainly purchases of inventory from suppliers).

b. Interest risk
As of December 31, 2020, there are loans totaling ILS 36,054 thousand in the Group's books which are exposed to changes in the market interest rate. In order to minimize the aforementioned exposure, the Group regularly reviews the terms of credit in the various alternatives and assessments of changes in interest rate in the economy and the interest rate on loans.

2. Liquidity risk

The Group's goal in managing its liquidity risks is to ensure, to the extent possible, a sufficient level of liquidity to satisfy its obligations in a timely manner. The Group monitors the actual cash flows to ensure sufficient levels of cash to pay current operating expenses and meet financial obligations.

NOTE 16: FINANCIAL INSTRUMENTS (Cont.)

D. Financial risk management objectives and policies (Cont.)

2. Liquidity risk (Cont.)

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments (including interest payments):

As of December 31, 2020

	Up to 1 year	1 - 2 years	2 - 3 years	3 - 5 years	5+ years	Total
	ILS 000's					
Loans from banking corporations	15,432	13,713	6,742	167	-	36,054
Trade payables (liabilities to vendors, suppliers and service providers)	116,890	-	-	-	-	116,890
Accounts payable and debit balances	29,775	-	-	-	-	29,775
Lease liabilities	55,549	55,690	55,926	101,959	355,305	624,429
	217,646	69,403	62,668	102,126	355,305	807,148

As of December 31, 2019

	Up to 1 year	1 - 2 years	2 - 3 years	3 - 5 years	5+ years	Total
	ILS 000's					
Loans from banking corporations	17,251	8,869	7,419	3,007	-	36,546
Trade payables (liabilities to vendors, suppliers and service providers)	59,024	-	-	-	-	59,024
Accounts payable and debit balances	21,695	-	-	-	-	21,695
Lease liabilities	48,633	50,746	50,614	91,405	265,355	506,753
	146,603	59,615	58,033	94,412	265,355	624,018

NOTE 16: FINANCIAL INSTRUMENTS (Cont.)

E. Fair value

The carrying amounts stated in the financial statements of cash and cash equivalents, deposits, customers, accounts receivable and credit balances, credit from banking corporations, liabilities to suppliers and service providers and accounts payable and debit balances match or approximate their fair value.

F. Derivatives

Derivatives not designated as hedging instruments

The Company has foreign currency forward contracts aimed at protecting against exposure to exchange rate fluctuations for inventory purchases. These forward foreign exchange contracts are not designated as cash flow hedges and are entered into for periods identical to those in which the Company has foreign currency exposure of the underlying transactions. The term of the forward contracts is typically up to 5 months.
As of December 31, 2019, the Company has forward transactions to purchase USD 8 million for ILS 27.8 million. The expected loss from these transactions as of December 31, 2019, is ILS 189 thousand.
As of December 31, 2020, the Company has forward transactions to purchase USD 18 million for ILS 60.5 million. The expected loss from these transactions as of December 31, 2020, is ILS 2,738 thousand.

G. Sensitivity tests for a change in market factors

	Sensitivity test for change in USD exchange rate	
	Profit (loss) from the change	
	10% increase in exchange rate	10% decrease in exchange rate
	ILS 000's	
Impact of the changes in years:		
As of December 31, 2020	4,914	(4,914)
As of December 31, 2019	976	(976)

	Sensitivity test for change in interest rates	
	Profit (loss) from the change	
	10% increase in interest rate	10% decrease in interest rate
	ILS 000's	
Impact of the changes in years:		
As of December 31, 2020	68	(68)
As of December 31, 2019	64	(64)

NOTE 17: EMPLOYEE BENEFIT LIABILITIES

Employee benefits consist of short-term benefits and post-employment benefits.

Post-employment benefits

According to the labor laws and Severance Pay Law in Israel, the Group is required to pay compensation to an employee upon dismissal or retirement or to make current contributions in defined contribution plans pursuant to section 14 to the Severance Pay Law, as specified below. The Group's liability is accounted for as a post-employment benefit. The computation of the Group's employee benefit liability is made according to the current employment contract based on the employee's salary and employment seniority which establish the entitlement to receive the compensation.

The post-employment employee benefits are normally financed by contributions classified as defined benefit plan or as defined contribution plan, as detailed below.

1. Defined contribution plans

Section 14 to the Severance Pay Law, 1963 applies to part of the compensation payments, pursuant to which the fixed contributions paid by the Group into pension funds and/or policies of insurance companies release the Group from any additional liability to employees for whom said contributions were made. These contributions and contributions for benefits represent defined contribution plans.

	For the Year Ending December 31		
	2020	2019	2018
	ILS 000's		
Expenses for defined contribution plans	**8,082**	**7,279**	**5,361**

2. Defined benefit plans

The Group accounts for that part of the payment of compensation that is not covered by contributions in defined contribution plans, as above, as a defined benefit plan for which an employee benefit liability is recognized and for which the Group deposits amounts in central severance pay funds and in qualifying insurance policies.

A. Expenses recognized in profit or loss

	For the Year Ending December 31		
	2020	2019	2018
	ILS 000's		
Current services cost	723	582	532
Interest expense for benefit liabilities	44	51	52
Total expenses for employee benefits	**767**	**633**	**584**

NOTE 17: EMPLOYEE BENEFIT LIABILITIES (Cont.)

2. Defined benefit plans (Cont.)

B. Plan liabilities, net

	As of December 31	
	2020	2019
	ILS 000's	
Liability for a defined benefit plan	**1,936**	**1,964**

C. Changes in the present value of the net liability for a defined benefit plan

	For the year ended December 31	
	2020	2019
	ILS 000's	
Balance as of January 1	1,964	1,422
Interest expenses	44	51
Current services cost	723	582
Benefits paid	(827)	(369)
Loss (gain) for re-measurement of other comprehensive profit	32	278
Balance as of December 31	**1,936**	**1,964**

D. Plan assets

The plan assets include assets held by a long-term employee benefit fund as well as appropriate insurance policies.

E. Primary assumptions for a defined benefit plan

	As of December 31	
	2020	2019
	%	
The discount rate for plan liabilities	2.58	2.81
The anticipated rate of return on plan assets	2.81	4.14
Anticipated rate of pay increases	2.44	2.48

NOTE 18: EQUITY

A. Composition of share capital

	As of December 31, 2020	
	Authorized	Issued and outstanding
	Number of Shares	
Ordinary shares with no par value	12,342,994,475	142,344,680

	As of December 31, 2019	
	Authorized	Issued and outstanding
	Number of Shares	
Ordinary shares of the Company, ILS 0.01 par value each	3,824,000	44,100

B. Share split

On September 1, 2020, a resolution was adopted to split the Company's share capital, such that each ordinary share was split into 3,227.77 shares with no par value and resulted in the issued and outstanding share capital being 142,344,680 instead of 44,100 which was the amount prior to the split. The earnings per share were accordingly calculated retrospectively for all the reporting periods.

C. Listing the Company's shares on the TASE

On September 14, 2020, the Company's shares were first offered to the public through a tender offer on the Tel Aviv Stock Exchange Ltd. ("TASE") under a tender offer prospectus and shelf prospectus and the Company became a public company. 142,344,680 ordinary shares with no par value have been listed on TASE including 45,000,000 shares which were sold by the controlling shareholders. The shares sold constitute 31.61% of the Company's issued and outstanding share capital and voting rights therein.

On September 21, 2020, the lead underwriter of the tender offer under the prospectus (the "Lead Underwriter"), informed a controlling shareholder of the Company of the exercise of the option given to it, to acquire an additional 6,750,000 ordinary shares with no par value of the Company. Following completion of the transaction, the shares sold constitute 36.36% of the Company's issued and outstanding share capital and voting rights therein.

The issuance expenses incurred by the Company totaled approximately ILS 4,613 thousands and they are included in the other expenses line item in the report on profit and loss and other comprehensive profit for 2020.

D. Dividends

1. On December 9, 2018, the Company declared a dividend of ILS 25,000 thousands (approximately ILS 567 per share).
2. On May 19, 2019, the Company declared a dividend of ILS 50,000 thousands (approximately ILS 1,133 per share).

NOTE 18: EQUITY (Cont.)

E. Actions with minority right holders

1. On December 31, 2019, the Company acquired 20% and 10% of the share capital, respectively, of Max Tiberias Ltd. and Max Shaar Carmel Ltd. from non-controlling interest holders. Following the acquisition, the Company's holding rate in the subsidiaries increased to 80% and 100%, respectively. The consideration for the acquisitions totaled ILS 1,271 thousands. The difference in the amount of ILS 777 thousands between the amount paid and the book value of the minority rights as of the transaction execution date is imputed to the principal for transactions with holders of non-controlling rights.

   On June 30, 2020, the Company executed agreements to acquire the non-controlling interests in some of the Company's subsidiaries from holders of minority rights. The consideration for the acquisitions totaled ILS 5,800 thousands. The difference in the amount of ILS 4,220 thousands between the amount paid and the book value of the minority rights as of the transaction execution date is imputed to the principal for transactions with holders of non-controlling rights.

2. Option to acquire the shares from holders of non-controlling rights

   During Q3 2020, the Company executed agreements with the holders of non-controlling rights in the Company's subsidiaries (with the exception of one subsidiary), whereby the Company shall have an option to acquire the shares held by them, according to an agreed multiplier of their share in the net profit.

NOTE 19: EMPLOYEE OPTION PLAN

The expense recognized in the financial statements for employee services is presented in the table below.

	For the Year Ending December 31		
	2020	2019	2018
		ILS 000's	
Total expense recognized from share-based payments settled through equity instruments	2,345	-	-

On August 10, 2020, the Company's board of directors adopted an options plan (unlisted) for the Company's employees and officers which was submitted for approval to the Company's Deductibles Assessment Officer on September 3, 2020, such that it will be in accordance with the capital gains/trustee route under Section 102(b)(2) and 102(b)(3) of the Income Tax Ordinance [New Version], 5721-1961. The exercise price of the options for an offeree whose employment with the Company commenced prior to the completion of the Company's tender offer will be determined based on the value of the Company on the later of the date of the initial investment made by Moose Holdco Ltd. in the Company (July 2017) or the date of the commencement of the offeree's employment or term in office at the Company. The exercise price of the options for an offeree who commenced their employment with the Company following the completion of the Company's tender offer will be determined based on the weighted average of the Company's share price on TASE over the thirty (30) day period prior to the date of the board of directors' approval of the grant thereof.

According to the Company's remuneration policy, the period required for the equity remuneration granted to an officer to fully vest shall be at least 5 years from the date of grant or from an earlier date (if determined by the Company's board of directors), which shall not precede the commencement of the offeree's employment, in equal or non-equal tranches.

NOTE 19: EMPLOYEE OPTION PLAN (Cont.)

Furthermore, it will not be possible to exercise the options within the period of the first 12 months following the date of completion of the Company's tender offer.

In accordance with the approval of the Company's remuneration committee and board of directors, on November 29, 2020, 2,274,258 options (unlisted) were allotted to 27 of the Company's employees and officers. Similarly, further to the approval of the Company board meeting held on November 29, 2020, on December 21, 2020, the Company's general meeting approved an additional allotment of 46,706 options to one of the Company's directors. In total, 2,320,964 options (unlisted) were allotted which can be can be exercised into up to 2,320,964 shares.

According to the terms of the allotments approved to the employees and officers (including the director), the vesting period for these options is five (5) years commencing before the date of grant, as follows:

1. For employees and officers whose employment with the Company commenced before July 2017 - the vesting period commenced from July 2017;

2. For employees and officers whose employment with the Company commenced after July 2017 - the vesting period commenced from the date of their employment.

The Company's board of directors determined that according to that set forth in the remuneration policy regarding the first exercise date after 12 months, the first exercise date for the options (either in full or prorated based on the tranches vesting during the vesting period) will be after 24 months, meaning from September 2022, whereby, for the employees included above in section 1 - such entails the vesting and exercise of all of their options.

The fair value of the allotted options was determined based on the Black & Scholes model and totaled ILS 29,110,443. This value was calculated based on the following assumptions:

Share price for the calculation - ILS 14.40;

An exercise price ranging from ILS 1.60-4.90;

Average standard deviation ranging from 52.36% - 53.47% (based on comparison companies);

Average risk free interest ranging from 0.43%-0.61% (based on ILS denominated government bonds);

The total expense which shall be imputed in the Company's financial statements during the period from said board resolution until September 30, 2022, for allotments which have been approved, as said, is approximately ILS 29 million, save for an immaterial amount imputed for the employees included above in paragraph 2 during subsequent periods. The total expense imputed in the consolidated statements of profit or loss and other comprehensive profit for 2020 is approximately ILS 2.3 million.

NOTE 20: SALES

	For the Year Ending December 31		
	2020	2019	2018
		ILS 000's	
Revenues from sales (2)	879,214	735,582	611,676
Revenues from Selling Protective Equipment	124,800	-	-
Revenue from commissions/fees	6,481	5,968	6,310
	1,010,495	**741,550**	**617,986**

(1) For further details see Note 1D.
(2) Below is a breakdown of income from the Company's main product categories:

	For the Year Ending December 31		
	2020	2019	2018
		ILS 000's	
Office and school supplies	74,262	72,568	58,086
Toys and baby products	104,193	85,570	62,568
Disposable utensils and party products	80,340	73,316	55,567
Homeware	231,686	194,686	142,856
Other	320,859	266,012	250,677
	811,340	**692,152**	**569,754**

NOTE 21: COST OF SALES

	For the Year Ending December 31		
	2020	2019	2018
		ILS 000's	
Purchases	633,585	444,967	364,369
Increase in inventory	(24,917)	(26,941)	(12,946)
Logistical expenses	42,894	29,977	23,617
	651,562	**448,003**	**375,040**

NOTE 22: SELLING AND MARKETING EXPENSES

	For the Year Ending December 31		
	2020	2019	2018
		ILS 000's	
Salaries and related	99,787	98,382 (*)	78,315 (*)
Share-based payment	733	-	-
Rent	-	-	30,452
Municipal taxes	10,723	12,006	9,873
Depreciation	6,815	5,095	4,554
Depreciation of right-of-use assets	32,710	30,062	-
Maintenance, security, cleaning and insurance	6,993	7,351	6,266
Electricity and water	4,595	4,425	3,863
Credit card fees	4,262	3,548	3,350
Other	3,549	3,814	2,283
	170,167	**164,683**	**138,956**

(*) Reclassified.

NOTE 23: GENERAL AND ADMINISTRATIVE EXPENSES

	For the Year Ending December 31		
	2020	2019	2018
		ILS 000's	
Management fees	7,454	6,065	6,398
Salaries and related	10,429	8,891 (*)	6,745 (*)
Share-based payment	1,612	-	-
Professional services	6,026	3,960	3,009
Vehicle maintenance	3,196	2,960	2,444
Computerization	2,536	1,653	1,363
Other	2,529	3,037	2,445
	33,782	**26,566**	**22,404**

(*) Reclassified.

NOTE 24: FINANCE EXPENSES (INCOME)

	For the Year Ending December 31		
	2020	2019	2018
		ILS 000's	
Financing revenues			
Currency differentials	(1,047)	(512)	-
Income tax interest	(71)	(89)	(45)
	(1,118)	**(601)**	**(45)**
Financing expenses			
Bank interest and fees	2,313	1,289	1,393
Currency differentials	-	-	72
Leasing financing expenses	15,411	9,709	-
Interest – related parties	-	-	207
Loss from financial derivatives	2,676	-	-
Other	-	-	49
	20,400	**10,998**	**1,721**

NOTE 25: OTHER EXPENSES (INCOME)

	For the Year Ending December 31		
	2020	2019	2018
		ILS 000's	
Other Income			
Profit from impairing lease liabilities	(1,224)	(733)	-
	(1,224)	**(733)**	**-**
Other Expenses			
Capital loss from sale of fixed assets	866	1,499	1,682
Issuance costs	4,613	-	-
	5,479	**1,499**	**1,682**

NOTE 26: EARNINGS PER SHARE

Details of the number of shares and earnings used in calculating the net earnings per share:

	For the year ended December 31					
	2020		2019		2018	
	Quantity Weighted number of shares	Net income attributable to equity holders of the Company	Quantity Weighted number of shares	Net income attributable to equity holders of the Company	Quantity Weighted number of shares	Net income attributable to equity holders of the Company
	000's	ILS 000's	000's	ILS 000's	000's	ILS 000's
For the computation of basic net earnings	142,345	72,647	142,345	58,892	142,345	49,443
For the computation of diluted net earnings	142,437	72,647	142,345	58,892	142,345	49,443

- The weighted amount of the shares is in accordance with the issued and outstanding share capital following the share split executed on September 1, 2020. For further details see Note 18B.

NOTE 27: TAXES ON INCOME

A. Tax laws applicable to the Company

Income Tax (Inflationary Adjustments) Law, 5745-1985:

According to the law, until 2007, the results for tax purposes were adjusted for the changes in the Israeli CPI.

In February 2008, the Israeli parliament (the Knesset) passed an amendment to the Income Tax Law (Inflationary Adjustments), 5745-1985, which limits the scope of the Adjustments Law starting from 2008 and thereafter. Since 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the Israeli CPI carried out in the period up to December 31, 2007. Adjustments relating to capital gains such as for sale of property (betterment) and securities continue to apply until disposal. Since 2008, the amendment to the law includes, among others, the cancelation of the inflationary additions and deductions and the additional deduction for depreciation (in respect of depreciable assets purchased after the 2007 tax year).

B. Tax rates applicable to the Company

In December 2016, the Israeli parliament approved the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 5777-2017, which includes the reduction of the corporate tax rate to 24% (instead of 25%) effective from January 1, 2017, and to 23% effective from January 1, 2018.

The corporate tax rate in Israel for 2020, 2019 and 2018 is 23%.

A body corporate is liable for tax on real capital gains at the corporate tax rate that applies in the year of sale.

NOTE 27: TAXES ON INCOME (Cont.)

C. Deferred taxes

Composition:

	Statements of financial position		Statements of comprehensive profit		
	As of December 31		For the Year Ending December 31		
	2020	2019	2020	2019	2018
	ILS 000's				
Deferred tax assets					
Lease	6,498	4,879	(1,619)	(485)	-
For employee benefits.	1,260	1,072	(188)	(385)	(57)
Other	2,800	691	(2,109)	(122)	(39)
Deferred tax income			(3,916)	(992)	(96)
Deferred tax assets	10,558	6,642			

D. Income taxes included in the profit or loss statements:

Composition:

	For the Year Ending December 31		
	2020	2019	2018
	ILS 000's		
Current taxes	34,356	21,926	18,645
Deferred taxes	(3,916)	(992)	(96)
Taxes for previous years	102	(73)	865
	30,542	20,861	19,414

NOTE 27: TAXES ON INCOME (Cont.)

E. Theoretical tax

The reconciliation between the tax expense, assuming that all the income, expenses, gains and losses in profit or loss were taxed at the statutory tax rate and the taxes on income recorded in profit or loss is as follows:

	For the Year Ending December 31		
	2020	2019	2018
		ILS 000's	
Profits before income taxes	118,171	91,135	78,228
Israel's statutory tax rate	23%	23%	23%
Tax computed at the statutory tax rate	27,179	20,961	17,992
Increase (decrease) in taxes on income resulting from the following:			
Non-deductible expenses for tax purposes and others	3,089	(27)	557
Timing differentials which are not imputed with deferred taxes	47	-	-
Increase in losses for tax purposes for which no deferred taxes were attributed	125	-	-
Tax differentials for previous years	102	(73)	865
Taxes on income	30,542	20,861	19,414
Average effective tax rate	25.8%	22.9%	24.8%

F. Final tax assessments

The Company has received final tax assessments through the 2017 tax year.
The Group's subsidiaries have received final tax assessments through 2015 save for three subsidiaries which have final tax assessments through 2019.

NOTE 28: TRANSACTIONS WITH INTERESTED AND RELATED PARTIES

A. Identity of interested and related parties

The Company's interested and related parties include: Moose Holdco Ltd. and parties affiliated thereto, Uri Max Ltd. and parties affiliated thereto, Oria & Iris Ltd. and parties affiliated thereto, other interested parties and key management personnel of the Company.

B. Balances with interested and related parties

As of December 31, 2020

	Controlling shareholder	Affiliated companies	Key management personnel	Other affiliates/ related parties
	ILS 000's			
Payables:				
Trade payables (liabilities to vendors, suppliers and service providers)	-	119	-	4
Accounts payable and debit balances	3,018	-	862	181
Reserve for share-based payments	-	-	1,095	45

As of December 31, 2019

	Controlling shareholder	Affiliated companies	Key management personnel	Other affiliates/ related parties
	ILS 000's			
Payables:				
Trade payables (liabilities to vendors, suppliers and service providers)	-	128	-	-
Accounts payable and debit balances	1,786 (*)	-	1,122 (*)	30 (*)

(*) Reclassified

NOTE 28: TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

C. Transactions with interested and related parties

	For the year ended December 31					
	2020		2019		2018	
	No. of people	ILS 000's	No. of people	ILS 000's	No. of people	ILS 000's
Management fees (1 a-c)	3	5,054	3	5,115	3	5,498
Annual bonus (1A)	1	2,400	1	950	1	900 (*)
Salaries expenses for key management personnel	5	4,376	7	3,428	5	2,713
Payments to relatives of interested parties employed by the company (5)	2	204	2	348	2	534
Payments to interested parties (2)	1	105	1	290		-
Director fees	6	190		-		-
Payments to an affiliated company for the purchase of goods (11)	2	2,064		814		374
Revenues from an affiliated company for the provision of services		-		30		30
Rent to an affiliated company		-		-		630
Interest on related-party loans		-		-		207
Financing revenues for extraordinary transactions (9)	2	50		-		-
Interest on lease obligation (3)(7)		1,007		701		-

*) ILS 200,000 of the above amount is for 2017.

(1) Management fees

a) The Company has a services agreement for management services with a controlling shareholder company dated July 20, 2017, whereby it will provide managerial and supervisory services in all areas of the Company's business. The Company may terminate the agreement through the provision of 6 months prior notice. The monthly management fee is ILS 206 thousand plus VAT. The controlling shareholder serves as Co-CEO and director of the Company. Similarly, the shareholder who serves as Co-CEO of the Company is entitled to an annual bonus based on the increase in adjusted EBITDA in the calendar year compared to the previous year.

NOTE 28: TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

C. Transactions with interested and related parties (Cont.)

(1) Management fees (Cont.)

b) The company has a services agreement with another controlling shareholder company dated July 20, 2017, to receive consulting and management services in consideration for monthly management fees of ILS 85 thousand. The Company may terminate the agreement through the provision of 6 months prior notice.

On March 19, 2019, the parties executed an addendum to the agreement whereby the monthly management fee will be ILS 50 thousand.

On February 16, 2020, the parties executed an addendum to the agreement whereby the monthly management fee will be ILS 85 thousand commencing from January 1, 2020.

On January 1, 2020, the shareholder of the controlling shareholder company was appointed as Co-CEO together with the shareholder mentioned above in paragraph 'a'. These services are included in the management and consulting services provided by the company under his control as stated above.

c) On June 6, 2017, the Company executed an agreement to receive consulting and management services with a controlling shareholder company in consideration for annual management fees of ILS 2 million. A new management agreement with the controlling shareholder company became effective in September 2020, pursuant to which it shall be paid the same annual fees of ILS 2 million in quarterly payments of ILS 500 thousands, *inter alia*, for various director and consulting services. The management services shall be personally provided by the controlling shareholder or through assigning responsibilities under the management agreement to someone appointed on his behalf, all as set forth in the management agreement. The management agreement is effective for a period of 5 years and will then be automatically renewed for 3 year periods, subject to the receipt of approvals required by law. In addition, an early termination mechanism has been established in the event that the controlling shareholder's shareholdings in the Company fall below the rate specified in the agreement.

(2) On March 19, 2019, a director was appointed to the Company who provided it with consulting services, including strategic process consulting. For these services, the director was entitled to a total monthly payment of ILS 30 thousand. In February 2020 the consulting agreement concluded. Furthermore, 46,706 options were allotted to one of the Company's directors. For details about the allotment see Note 19 – Employee Option Plan.

(3) The Company, through a subsidiary, leases a property for one of the its branches operations from a company owned by one of the Company's controlling shareholders. The controlling shareholder owns 25% of the aforementioned property. The rent has been set at arm-length terms.

(4) Family members of one of the Company's controlling shareholders operate 3 of the chain's franchises. The payments, terms and conditions of these franchises are consistent with the terms and conditions of other similar agreements.

NOTE 28: TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

C. Transactions with interested and related parties (Cont.)

(5) The Company employs two family members of one of the Company's controlling shareholders. The transactions are consistent with the terms and conditions of other similar transactions the Company has entered into and in amounts which are non-material.

(6) A company controlled by one of the Company's controlling shareholders leases a property to one of the Company's franchises. This property is being utilized to operate one of the chain's franchise branches.

(7) One of the Group's subsidiaries entered into a lease agreement with a company controlled by one of the Company's controlling shareholders, to lease a property, all at arm-length terms. The lease period is expected to start in H2 2021.

(8) To secure long-term loans granted to the Company by a banking corporation, two of the controlling shareholders each provided a limited personal guarantee of ILS 16.85 million in favor of the financing bank. The personal guarantees were removed in May 2020. For information regarding loans received from a banking corporation, see Note 14 – Loans from banks.

(9) For details regarding the share of controlling shareholders in the financing of the sale of personal protective equipment during the reporting period, see Note 1(D)(2).

(10) On August 30, 2020, the Company's board of directors approved an engagement with a third party to operate one of the chain's new branches on a property owned by it during 2021. One of the Company's controlling shareholders holds 50% of the third party's share capital. The rent payments have been set in accordance with arm-length terms.

(11) On November 23, 2020, one of the Company's interested parties who provides it with services was appointed as a director of the Company.

(12) On January 3, 2021, the Company's remuneration committee approved the Company's engagement in a POSI (Public Offering of Securities Insurance) D&O liability policy (the "Insurance Policy") for the Company's directors and officers, as they may be from time to time, including the Company's controlling shareholders and their relatives, in addition to the insurance policy with "Clal" for coverage of up to USD 10 million, in accordance with the terms and conditions set forth in the Company's remuneration policy. The Insurance Policy covers litigation not covered under the basic policy, including US securities litigation, including actions initiated under Rule A144 of the US Securities Act Law, which are excluded under the basic policy.

NOTE 29: EVENTS AFTER THE REPORTING DATE

In February 2021, dividend distributions totaling approximately ILS 4,246 thousands were announced for holders of non-controlling rights in the Company's subsidiaries.

Max Stock Ltd.

PRESENTATION OF FINANCIAL DATA FROM THE CONSOLIDATED FINANCIAL STATEMENTS ATTRIBUTED TO THE COMPANY

As of December 31, 2020

FINANCIAL DATA FROM THE CONSOLIDATED STATEMENTS ATTRIBUTED TO THE COMPANY

As of December 31, 2020

Table of Contents

Kost Forer Gabbay & Kasierer
2 Hapalyam Blvd.,
Haifa 330950
Tel: 04-8654000
Fax: 03-5633443
www.ey.com/il

Attn:

Shareholders of Max Stock Ltd.

Dear Madame and/or Sir,

Re: Special Auditor's Report on
Standalone Financial Data in Accordance with Section 9C of the Securities Regulations (Periodic and Immediate Reports), 5730-1970

We have audited the standalone financial data of Max Stock Ltd. (hereinafter – the Company), presented pursuant to Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, as of December 31, 2020, and 2019, and for each of the three years the last of which ended December 31, 2020. The standalone financial data is the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on the standalone financial data based on our audit.

We conducted our audit in accordance with generally accepted accounting standards in Israel. These standards require us to plan and perform the audit in order to obtain a reasonable level of assurance that the standalone financial data is free of material misrepresentation. An audit includes examining samples of evidence supporting the amounts and disclosures in the standalone financial data. An audit also includes assessing the accounting principles applied when preparing the standalone financial data and the significant estimates made by the Company's board of directors and management, as well as evaluating the appropriateness of the presentation of the standalone financial data. We believe that our audit and other audit reports provide a reasonable basis for our opinion.

In our opinion, based on our audit, the standalone financial data has been prepared, with respect to all material aspects, in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

Haifa,
March 14, 2021

Kost Forer Gabbay &
Kasierer
Accountants

Special Report Pursuant to Regulation 9C

Financial Data and Information from the Consolidated Financial Statements

Attributed to the Company

Presented below is the standalone financial data and information attributed to the Company from the group's consolidated financial statements as of December 31, 2020 (hereinafter - the Consolidated Statements), presented in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

The primary accounting principles applied in presenting this financial data have been described in Note 2 of the Consolidated Statements.

Investee companies as defined in Note 1 of the Consolidated Statements.

	Additional information	As of December 31 2020	2019
		ILS 000's	
Current assets			
Cash and cash equivalents	B	16,560	6,769
Short-term deposits		24,500	-
Customers		51,667	28,800
Accounts receivable and debit balances		17,024	9,834
Inventory		77,450	59,438
Total current assets		187,201	104,841
Non-Current Assets			
Deferred taxes		3,365	833
Assets (including goodwill) less liabilities attributed to investee companies, net		74,606	46,550
Fixed assets, net		11,063	7,098
Right of use assets		96,577	87,972
Total non-current assets		185,611	142,453
		372,812	247,294
Current liabilities			
Credit from banking corporations and others		7,417	10,000
Lease liabilities		7,563	7,996
Liabilities to vendors, suppliers and service providers		54,954	18,776 (*)
Financial derivatives		2,738	-
Accounts payable and credit balances	C	16,996	8,057 (*)
Total current liabilities		89,668	44,829
Non-current liabilities			
Long-term loans from banking corporations		11,667	12,917
Lease liabilities		94,114	82,786
Liabilities for employee termination benefits		89	228
Total Non-Current Liabilities		105,870	95,931
Shareholders' Equity		177,274	106,534
		372,812	247,294

(*) Reclassified

The accompanying additional information constitutes an integral part of the standalone financial data and information.

March 14, 2021			
Financial statements approval date	Zehavit Cohen Chairman of the Board of Directors	Uri Max Director and Co-CEO	Nir Dagan CFO

Financial Data from the Consolidated Statements of Profit or Loss and Other Comprehensive Profit Attributed to the Company

	Additional information	For the Year Ending December 31		
		2020	2019	2018
		ILS 000's		
Revenues from sales		514,529	275,990	211,279
Cost of goods sold		425,205	217,928	164,963
Gross profit		89,324	58,062	46,316
Marketing and sales expenses		11,530	6,851(*)	4,631 (*)
General and administrative expenses		29,931	24,008(*)	19,492(*)
Other income		-	-	(17)
Other expenses		4,611	-	-
Operating profit		43,252	27,203	22,210
Financing revenues		(1,108)	(658)	(72)
Financing expenses		8,051	1,592	1,015
Financing expenses for special transactions		13,276	-	-
Profits before income taxes		23,033	26,269	21,267
Income tax	D	8,034	5,740	5,415
Profit before Company's share in profits of consolidated companies		14,999	20,529	15,852
Company's share in profits of consolidated companies		57,648	38,363	33,591
Net profit		72,647	58,892	49,443
Total other comprehensive loss:				
Amounts not to be reclassified to profit or loss:				
Remeasurement of defined benefit plan		(32)	-	-
Total comprehensive profit		72,615	58,892	49,443

(*) Reclassified.

The accompanying additional information constitutes an integral part of the standalone financial data and information.

Financial Data from the Consolidated Statements of Cash Flows Attributed to the Company

	For the Year Ending December 31		
	2020	2019	2018
		ILS 000's	
Cash flows from the Company's current activities			
Net profit attributed to the Company	72,647	58,892	49,443
Adjustments required to present cash flows deriving from the Company's operating activities:			
Adjustments to the Company's profit or loss items:			
Depreciation and amortization	8,656	4,731	827
Financing expenses, net	17,543	934	943
Cost of share-based payments	2,345	-	-
Decline in fair value of financial assets	2,676	-	-
Change in liabilities for employee benefits, net	(107)	120	(59)
Profits of investee companies	(57,648)	(38,363)	(33,591)
Income taxes	8,034	5,740	5,415
	(18,501)	(26,838)	(26,465)
Changes in the Company's asset and liability items:			
Increase in customers	(22,867)	(6,600)	(10,331)
Decrease (increase) in receivables and credit balances	(7,190)	(1,739)	1,966
Increase in inventory	(18,012)	(22,137)	(8,954)
Increase in trade payables to suppliers and service providers	36,178	6,432 (*)	3,340
Increase (decrease) in creditors and debit balances	5,672	1,907 (*)	(3,033)
	(6,219)	(22,137)	(17,012)
Cash paid and received by the Company during the year for:			
Dividends received from investee companies	29,520	27,299	36,285
Interest paid	(4,267)	(934)	(943)
Interest paid for extraordinary transactions	(13,276)	-	-
Taxes paid, net	(6,171)	(5,259)	(5,372)
Total adjustments required to present cash flow deriving from operating activities	(18,914)	(27,869)	(13,507)
Net cash deriving from the Company's operating activities	53,733	31,023	35,936

(*) Reclassified.

The accompanying additional information constitutes an integral part of the standalone financial data and information.

Financial Data from the Consolidated Statements of Cash Flows Attributed to the Company

	For the Year Ending December 31		
	2020	2019	2018
		ILS 000's	
Cash flows from investment activities			
Acquisition of fixed assets	(6,008)	(2,706)	(1,447)
Investment in short term deposits	(24,500)	-	-
Investments in investee companies	(7,071)	-	-
Loan repayments to investee companies, net	1,796	4,924	2,495
Net cash deriving from the Company's investment activities (utilized for investing activities)	(35,783)	2,218	1,048
Cash flows from financing activities			
Obtaining long-term loans from banking corporations	8,000	20,000	-
Obtaining short-term loans from banking corporations	40,000	-	-
Repayment of short-term loans	(40,000)	-	-
Repayment of long-term loans from banking corporations	(11,833)	(7,500)	(5,002)
Repayment of shareholder loans	-	-	(20,000)
Payments of lease liabilities	(4,326)	(3,739)	-
Dividend paid	-	(50,000)	(25,000)
Total net cash used for the Company's financing activities	(8,159)	(41,239)	(50,002)
Increase (decrease) in Company's cash and cash equivalents	9,791	(7,998)	(13,018)
Balance of Company's cash and cash equivalents as of the beginning of the year	6,769	14,767	27,785
Balance of Company's cash and cash equivalents as of the end of the year	16,560	6,769	14,767
(a) Non-cash material activity of the Company			
Recognition of a right-of-use asset against a lease liability	15,220	47,711	-
Investment in investee companies	-	1,271	-

The accompanying additional information constitutes an integral part of the standalone financial data and information.

A. General

General description of the Company and its operations

Max Stock Ltd. (hereinafter – the "Company") is an Israel domiciled company. The Company and its subsidiaries are engaged in retail trade by operating a national chain of stores.

B. Cash and cash equivalents attributed to the Company (without amounts for investee companies)

	As of December 31	
	2020	2019
	ILS 000's	
Israeli currency (shekels)	14,487	5,954
Foreign currencies	2,073	815
	16,560	**6,769**

C. Disclosure regarding financial liabilities attributed to the Company (without amounts for investee companies)

Receivables and credit balances attributed to the Company

	As of December 31	
	2020	2019
	ILS 000's	
Employees and institutions for payroll	4,972	3,128(*)
Expenses payable	2,864	340(*)
Income tax	5,284	844
Affiliates/Related parties	3,182	1,816(*)
Other payables	694	1,929
	16,996	**8,057**

Reclassification(*)

D. Disclosure regarding deferred tax assets and deferred tax liabilities attributed to the Company (without amounts for investee companies) and disclosure regarding tax revenues or tax expenses attributed to the Company (without amounts for investee companies)

Taxes on revenue attributed to the Company

1. Tax laws applicable to the Company

Income Tax Law (Inflationary Adjustments), 5745-1985:

According to the law, until 2007, the results for tax purposes were adjusted according to changes in the Israeli CPI.

In February 2008, the Israeli parliament (the Knesset) passed an amendment to the Income Tax Law (Inflationary Adjustments), 5745-1985, which limits the scope of the Adjustments Law starting from 2008 and thereafter. Since 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the Israeli CPI in the period up to December 31, 2007. Adjustments relating to capital gains such as for the sale of property (betterment) and securities continue to apply until the date of sale.

D. Disclosure regarding deferred tax assets and deferred tax liabilities attributed to the Company (without amounts for investee companies) and disclosure regarding tax revenues or tax expenses attributed to the Company (without amounts for investee companies) (continued)

Taxes on revenue attributed to the Company (continued)

1. Tax laws applicable to the Company (continued)

Since 2008, the amendment to the law includes, among others, the cancelation of the inflationary additions and deductions and the additional deduction for depreciation (in respect of depreciable assets purchased after the 2007 tax year).

2. Tax rates applicable to the Company

In December 2016, the Israeli parliament approved the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 5777-2017, which includes the reduction of the corporate tax rate to 24% (instead of 25%) effective from January 1, 2017, and to 23% effective from January 1, 2018.

The corporate tax rate in Israel for 2020, 2019 and 2018 is 23%.

A body corporate is liable for tax on real capital gains at the corporate tax rate that applies in the year of sale.

3. Tax Assessments Applicable to the Company

Final Tax Assessments

The Company was issued consented final tax assessments until and including the 2017 tax year.

4. Tax on income attributed to the Company included in profit or loss

	For the Year Ending December 31		
	2020	2019	2018
	ILS 000's		
Current taxes	10,609	6,310	5,353
Deferred taxes	(2,575)	(115)	(4)
Taxes for previous years	-	(455)	66
	8,034	**5,740**	**5,415**

E. Material loans, balances and engagements with investee companies

1. Balances with investee companies

	As of December 31	
	2020	2019
	ILS 000's	
Included in customers	40,339	21,279
Investment in investee companies	74,606	46,550
	114,945	**67,829**

E. Material loans, balances and engagements with investee companies (continued)

2. Transactions with investee companies

	For the Year Ending December 31		
	2020	2019	2018
	ILS 000's		
Sales to subsidiaries	296,247	209,683	150,042
Revenues from turnover commissions	20,399	17,408	14,287
Revenue from participation in administrative expenses	750	750	668
	317,396	**227,841**	**164,997**

3. Loans

On March 1, 2009, the Company granted a loan totaling ILS 1,380 thousands to the consolidated company Max Nesher Ltd. No repayment date was scheduled for the loan. The loan bears annual interest of 2.62%. The loan balance as of December 31, 2020 is ILS 441 thousands.

F. Material events after the reporting period

Information regarding significant events has been provided in Note 29 of the Consolidated Financial Statements.

Chapter D

Additional Details about the Company

Regulation 10A: Summary of the Quarterly Reports on Comprehensive Profit

Presented below is a summary of the Company's profit and loss reports for each quarter during 2020:

Item	10-12/2020	7-9/2020	4-6/2020	1-3/2020	10-12/2019	Company's explanations
Revenues	276,084	261,970	286,375	186,066	179,342	The increase in revenues in Q4 2020 relative to Q4 2019 arises from an increase in the Company's operations, both through increasing revenues of existing branches and by opening new branches.
Cost of goods sold	170,858	159,519	209,535 (*)	111,650	107,860	The increase in cost of goods sold in Q4 2020 relative to Q4 2019 arises from an increase in the Company's operations, both through increasing the cost of goods sold in existing branches and by opening new branches.
Gross profit	**105,226**	**102,451**	**76,840**	**74,416**	**71,482**	The average annual gross profit margin is 39%.
%	**38.1%**	**39.1%**	**26.8%**	**39.9%**	**39.9%**	
Marketing and sales expenses	52,078	48,191 (*)	30,910 (*)	38,988 (*)	42,686 (*)	The increase in marketing and sales expenses during Q4 2020 relative to Q4 2019 is primarily attributable to an increase in depreciation of right of use assets attributable to right of use assets recognized at the end of 2019 and during 2020, and an increase in depreciation of fixed asset expenses attributable to investments in new branches and salary expenses attributable to an increase in scope of the

Item	10-12/2020	7-9/2020	4-6/2020	1-3/2020	10-12/2019	Company's explanations
						Company's activities. The rate of marketing and sales expenses from revenues has declined throughout the period.
General and administrative expenses	13,624	8,222 (*)	5,991 (*)	5,945 (*)	7,430 (*)	The increase in general and administrative expenses during Q4 2020 relative to Q4 2019 is primarily attributable to an increase in the CEO bonus due to the Company's improved operating results, salary expenses arising from an increase in the scope of the Company's operations and share-based payments imputed during Q4 2020, professional services and computing expenses to strengthen the Company's headquarters.
Other income	(126)	(596)	(485)	(18)	(264)	During Q4 2020 and Q4 2019 other income is attributable to the profit from impairing leasing liabilities resulting from the application of Standard 16.
Other expenses	199	5,280	-	-	308	Other expenses in Q4 2020 are primarily attributable to issuance costs and in Q4 2019 they are primarily attributable to a capital loss from selling fixed property.
Operating	**39,451**	**41,354**	**40,424**	**29,501**	**21,322**	

Item	10-12/2020	7-9/2020	4-6/2020	1-3/2020	10-12/2019	Company's explanations
profit						
Financing revenues	(650)	(690)	(727)	(3,793)	(94)	Financing revenues during Q4 2020 are primarily attributable to exchange rate differentials and in Q4 2019 they are primarily attributable to exchange rate differentials and interest on income tax.
Financing expenses	8,195	4,502	6,491	5,955	2,555	The increase in financing expenses in Q4 2020 relative to Q4 2019 primarily arises from an increase in financing expenses for USD hedging transactions and financing expenses for leases.
Financing expenses for extraordinary transactions	-	1,446	8,375 (*)	3,456	-	
Pre-tax profit	**31,906**	**36,096**	**26,285**	**23,883**	**18,861**	
Taxes on income	8,429	9,932	6,374	5,807	3,946	
Net profit	**23,477**	**26,164**	**19,911**	**18,076**	**14,915**	
Other comprehensive profit (loss):						
Remeasuring defined benefit plans	(32)	0	0	0	(278)	
Total comprehensive profit	**23,445**	**26,164**	**19,911**	**18,076**	**14,637**	

Regulation 10C: Use of Security Proceeds

On September 14, 2020, the Company published a tender offer prospectus and shelf prospectus (Ref. No: 2020-01-092029) (the "**Prospectus**"). The Prospectus stipulated that the Company was not offering securities and that the Company would accordingly also not receive any financial consideration. The issuance proceeds (gross) received by the Offerors (as defined in the Prospectus) in the tender offer under the Prospectus totaled approximately ILS 540,000 thousands.

Regulation 11(1) and 11(2): List of Investments in Subsidiaries and Investees

As of the date of the report, the Company has 25 active subsidiaries which are private companies incorporated in Israel, the majority of which are held by the Company in rates ranging between 70% to 100%[1]. These subsidiaries, together with another granddaughter company (second-tier subsidiary), operate a total of 27 stores operating under the "Max - Fun Shopping" brand which is part of the Max Store Chain (one of the subsidiaries operates 2 stores)[2]. Another granddaughter company operates a store under the "Max20" brand. Presented below is a list of the Company's investments, as of the date of the report on the financial position, in the primary subsidiaries. It is noted that, as of the date of the report, none of the subsidiaries are responsible for more than 10% of the Company's revenues.

Company name	TASE share #	Share class	No. of shares in the authorized share capital	No. of shares in the outstanding share capital	Total par value held by the Company	Their value in the Company's standalone financial statements (ILS 000's)	Company's holding rate in		
							equity	voting rights	Authority to appoint directors
Big Max Ltd.	Unlisted.	Ordinary	10,000	100	ILS 75	5,576	75%	75%	100%
Max Rishon Ltd.	Unlisted.	Ordinary	50,000	1,000	ILS 901	7,116	90.1%	90.1%	100%
Max Amot Beer Sheva Ltd.	Unlisted.	Ordinary	10,000	100	ILS 75	5,607	75%	75%	100%

[1] Excluding one branch in which the manager holds 45% of the subsidiary's outstanding share capital, and another branch in which the Company holds 45% of the ordinary share capital and one management share which grants it the right to appoint a director. That branch has four other shareholders, including the branch manager who holds 10% of the subsidiary's outstanding share capital.

[2] Excluding a new subsidiary, which was incorporated at the end of 2020 in order to establish a new branch, which is anticipated to open at the end of Q1 2021.

Regulation 12: Changes in Investments in Subsidiaries and Investees

In 2020, the Company acquired minority rights in its subsidiaries ranging from 5%-49% of the share capital of each company, as said. For further details see Section 1.5(c) of the board of directors report.

Regulation 13: Revenues of the Subsidiaries and Investees and Revenues from Them

Presented below is a table detailing the comprehensive profit (loss) of the primary subsidiaries, and the Company's revenues therefrom which have been received by the date of the report on financial position, for 2020 and the period following the date of said report (ILS 000's):

Company name	Comprehensive profit (loss)	Other comprehensive profit (loss)	Management fees		Interest and linkage differentials		Dividends	
			For 2020	For the period following the balance sheet date	For 2020	For the period following the balance sheet date	For 2020	For the period following the balance sheet date
Big Max Ltd.	7,434	-	1,681	140	-	-	8,267	-
Max Rishon Ltd.	3,457	-	1,171	93	-	-	1,500	1,000
Max Amot Beer Sheva Ltd.	5,598	-	1,323	110	-	-	2,500	1,871

Regulation 20: TASE Trading

On September 17, 2020, following the completion of the Company's initial public offering on the Tel Aviv Stock Exchange, 142,344,680 ordinary shares in the Company with no par value were listed.

Regulation 21: Payments to Interested Parties and Senior Officers

Senior Officers

Presented below is a description of the remuneration awarded to each of the five highest paid officers of the Company or of corporations under its control, in connection with their service in the Company or corporations under its control, as recognized in the Company's financial statements (in terms of cost to the Company):

Payee details				Remuneration for services							Other remuneration			Total
Name	**Position**	**Scope of position**	**Equity holding %**	**Salary**	**Bonus**	**Share based payments**	**Management fees**	**Consulting fees**	**Commission**	**Other***	**Interest**	**Rent**	**Other**	
Uri Max (1)	Co-CEO[3]	100%	17.55%	-	2,400	-	2,271.5	-	-	-	-	-	-	4,671.5
Evan Neumann (2)	Co-CEO[4]	100%	18%	-	-	-	949.5	-	-	-	-	-	-	949.5
Shlomo Cohen (3)	Deputy CEO	100%	-	572	140	245.4	-	-	-	-	-	-	-	957.4
Nir Dagan (4)	CFO	100%	-	550	150	245.4	-	-	-	-	-	-	-	945.4
Oz Kursia (5)	VP Logistics	100%	-	543	105	245.4	-	-	-	-	-	-	-	893.4

[3] Mr. Max provides Co-CEO services through Uri Max Ltd. - a company wholly owned by him.

[4] Mr. Neumann provides the Company with services through Oria & Iris Ltd. - a company wholly owned by him. As of January 1, 2020, Mr. Neumann serves as Co-CEO of the Company.

Presented below are additional details about the terms of service and employment of the senior officers included in the above table:

(1) Uri Max - Mr. Max has been serving as CEO of the Company since inception pursuant to services agreements signed from time to time. The services agreement in effect as of the date of the report is a services agreement dated July 20, 2017. For his service as Co-CEO, Mr. Max is entitled to management fees totaling ILS 200,000 plus VAT per month (in this section (1): the "**Management Fees**"). Furthermore, Mr. Max is entitled to reimbursement for car maintenance costs totaling ILS 6,500 per month, reimbursement of reasonable business expenses incurred for the performance of his position (subject to presenting suitable documentation) and an annual bonus which shall be calculated based on the following formula: (1) In the event that the Company's EBITDA in its consolidated financial statements in a given year will be higher by 20% of the EBITDA in the preceding calendar year, Mr. Max will be entitled to an annual bonus in an amount equal to 6 months of Management Fees; (2) In the event that the Company's EBITDA in its consolidated financial statements in any given year will be higher by 40% or more than the EBITDA in the preceding calendar year, Mr. Max shall be entitled to an annual bonus in an amount equal to 12 months of management fees; or (3) In the event that the Company's EBITDA in its consolidated financial statements will show less than 40% growth, but shall be equal to or higher by 10% than the EBITDA in the preceding calendar year, Mr. Max shall be entitled to an annual bonus equal to the product of: (i) ILS 2,400 thousand multiplied by (ii) the rate at which the EBITDA in the relevant calendar year was higher than the EBITDA in the preceding calendar year, divided by 40. Both the Company and Mr. Max may terminate the management agreement through the provision of six (6) months' prior notice. Additionally, the Company may immediately terminate the engagement with Mr. Max, against a once-off payment totaling six (6) times the monthly Management Fees. Under the services agreement and in accordance with the shareholders' agreement dated September 10, 2020 (the "**Shareholders Agreement**"), Mr. Max committed to the Company to not compete for a period of six months following the later of: (i) The completion of the period of employment; and (ii) The date on which the Group of Founders together with their Permitted Transferees (as these terms are defined in the Shareholders Agreement) shall not have the right to appoint a single member of the board of directors. Similarly, Mr. Max is entitled to D&O liability insurance, release and indemnification as customary with respect to senior officers and directors of the Company (for details see Regulation 29A below). In addition to the foregoing, Mr. Max serves as a director of the Company for no additional consideration.

(2) Evan Neumann - Mr. Neumann began his employment as VP Business Development of the Company on March 30, 2015, and as of January 1, 2020, Mr. Neumann serves as Co-CEO of the Company. Mr. Neumann's terms of service are stipulated in a services agreement, executed by and between the Company and Oria & Iris Ltd., a company wholly owned by Mr. Neumann, on July 20,

2017, which was amended in March 2019 and February 2020. Under the original services agreement dated July 20, 2017, Mr. Neumann provided services to the Company on a full-time basis, and was entitled to, *inter alia*, the following terms: monthly management fees totaling ILS 80,000 plus VAT (in this section (b): the "**Management Fees**") as well as reimbursement for monthly car maintenance expenses totaling ILS 5,000, and reasonable business expenses incurred for the purpose of executing his position (subject to presenting suitable documentation). In an amendment to the services agreement dated March 2019, the scope of his position was reduced to 70%, and the Management Fees were accordingly reduced to ILS 50,000. Pursuant to an addendum to the services agreement dated February 16, 2020, which was approved by the Company's competent organs on January 20, 2020, as of January 1, 2020, Mr. Neumann returned to serve as Co-CEO on a full-time basis, and the Management Fees were accordingly increased to ILS 80,000. Under the services agreement, both the Company and Mr. Neumann may terminate the management agreement through the provision of six (6) months' prior notice. Additionally, the Company may immediately terminate the engagement with Mr. Neumann, against a once-off payment totaling six (6) times the monthly Management Fees. Under the services agreement and in accordance with the Shareholders Agreement, Mr. Neumann committed to the Company to not compete for a period of six months following the later of: (i) The completion of the period of employment; and (ii) The date on which the Group of Founders together with their Permitted Transferees (as these terms are defined in the Shareholders Agreement) shall not have the right to appoint a single member of the board of directors. Similarly, Mr. Neumann is entitled to D&O liability insurance, release and indemnification as customary with respect to senior officers and directors of the Company (for details see Regulation 29A below). In addition to the foregoing, Mr. Neumann serves as a director of the Company for no additional consideration.

(3) Shlomo Cohen - Mr. Shlomo Cohen has served as Deputy CEO of the Company, in a full-time position, as of August 1, 2015, under an employment agreement executed by and between him and the Company, which includes, *inter alia*, the following conditions: (1) A gross monthly salary of ILS 40,000; (2) Fringe benefits including vacation days, sick days, convalescence pay, reimbursement of travel expenses, pension contributions, work disability insurance, and further education fund, all in accordance with applicable law; (3) A personal vehicle (without the Company grossing the tax in such respect); (4) Prior notice in accordance with the provisions of the law; and (5) An undertaking of non-solicitation and non-competition towards the Company for a period of 12 months from the termination date of his employment. Similarly, Mr. Cohen is entitled to D&O liability insurance and indemnification as customary with respect to senior officers and directors of the Company (for details see Regulation 29A below).

On November 29, 2020, Mr. Cohen was approved an allotment of 235,813 non-negotiable options which can be exercised into 235,813 ordinary shares of the Company with no par value. For details

regarding the exercise price of these options, the exercise period and vesting conditions see the Company's immediate reports dated November 29, 2020 and December 23, 2020 (Ref. No: 2020-01-129285 and 2020-01-139296, respectively), hereby included by way of reference.

On March 10, 2021 and March 14, 2021, the Company's remuneration committee and board of directors, respectively, in accordance with the Company's remuneration policy, approved the grant of an annual discretionary bonus to Mr. Cohen for 2020 totaling 3.5 of Mr. Cohen's monthly salaries, reflecting a total payment of ILS 140,000, as detailed in the above table.

(4) Nir Dagan - Mr. Nir Dagan has served as CFO of the Company, in a full-time position, as of August 1, 2016, under an employment agreement executed by and between him and the Company on June 26, 2016, which includes, *inter alia*, the following conditions: (1) A gross monthly salary of ILS 40,000; (2) Fringe benefits including vacation days, sick days, convalescence pay, reimbursement of travel expenses, pension contributions, work disability insurance, and further education fund, all in accordance with applicable law; (3) A personal vehicle (without the Company grossing the tax in such respect); (4) Prior notice in accordance with the provisions of the law; and (5) An undertaking of non-solicitation and non-competition towards the Company for a period of 12 months from the termination date of his employment. Similarly, Mr. Dagan is entitled to D&O liability insurance and indemnification as customary with respect to senior officers and directors of the Company (for details see Regulation 29A below).

On November 29, 2020, Mr. Dagan was approved an allotment of 235,813 non-negotiable options which can be exercised into 235,813 ordinary shares of the Company with no par value. For details regarding the exercise price of these options, the exercise period and vesting conditions see the Company's immediate reports dated November 29, 2020 and December 23, 2020 (Ref. No: 2020-01-129285 and 2020-01-139296, respectively), hereby included by way of reference.

On March 10, 2021 and March 14, 2021, the Company's remuneration committee and board of directors, respectively, in accordance with the Company's remuneration policy, approved the grant of an annual discretionary bonus and once-off bonus to Mr. Dagan for 2020 totaling 3.75 of Mr. Dagan's monthly salaries, reflecting a total payment of ILS 150,000, as detailed in the above table.

(5) Oz Kursia - Mr. Oz Kursia has served as VP Logistics in the Company, in a full-time position, since July 4, 2013. His terms of employment include, *inter alia*, the following conditions: (1) A gross monthly salary of ILS 35,000; (2) Fringe benefits including vacation days, sick days, convalescence pay, reimbursement of travel expenses, pension contributions, work disability insurance, and further education fund, all in accordance with applicable law; (3) A personal vehicle (with the Company grossing the tax in such respect); (4) Prior notice in accordance with the provisions of the law; and (5) An undertaking of non-solicitation and non-competition towards the Company for a period of 12 months from the termination date of his employment. Similarly, Mr. Kursia is entitled to D&O

liability insurance and release as customary with respect to senior officers and directors of the Company (for details see Regulation 29A below).

On November 29, 2020, Mr. Kursia was approved an allotment of 235,813 non-negotiable options which can be exercised into 235,813 ordinary shares of the Company with no par value. For details regarding the exercise price of these options, the exercise period and vesting conditions see the Company's immediate reports dated November 29, 2020 and December 23, 2020 (Ref. No: 2020-01-129285 and 2020-01-139296, respectively), hereby included by way of reference.

On March 10, 2021 and March 14, 2021, the Company's remuneration committee and board of directors, respectively, in accordance with the Company's remuneration policy, approved the grant of an annual discretionary bonus to Mr. Kursia for 2020 totaling 3 of Mr. Kursia's monthly salaries, reflecting a total payment of ILS 105,000, as detailed in the above table.

Interested Parties

Presented below is a description of the remuneration granted to interested parties of the Company, not included in the above table, granted to them by the Company or by a corporation controlled by it, in connection with services provided as functionaries of the Company or of corporations under its control, as recognized in the financial statements of the Company, in thousands of shekels (in terms of cost to the Company):

Payee details				Remuneration for services							Other remuneration			Total
Name	**Position**	**Scope of position**	**Equity holding %***	**Salary**	**Bonus**	**Share based payments**	**Management fees**	**Consulting fees**	**Commission**	**Other**	**Interest**	**Rent**	**Other**	
Moose Holdco Ltd. (1)	Management and consulting services	-	27.64%	-	-	-	1,833	-	-	-	-	-	-	1,833
Shlomo Zohar (2)	Executive Director	40%	-		-	45.24	-	60	-	-	-	-	-	105.24

Presented below are additional details about payments made to the interested parties included in the above table:

(1) Moose Holdco Ltd. - Pursuant to an agreement between the Company's shareholders dated July 20, 2017, as amended in March 2019 and which is valid until the completion of the tender offer under the Prospectus, for management and consulting services provided by it, the Company has paid Moose Holdco Ltd. ("**Moose Holdco**") annual management fees totaling ILS 2 million plus VAT, through 12 monthly payments of ILS 166,666.67 plus VAT each. From the completion date of the tender offer under the Prospectus, a management and consulting services agreement between the Company and Moose Holdco came into effect (the "**Management Agreement**"), its primary terms are as follows:

- The services – Moose Holdco shall provide the Company with management services that include: director services; consulting on the financing of the Company's activities, including connections with private investors and banks; consulting on activity in the capital markets; business development and examination of transactions; financial consulting; strategic consulting; identifying opportunities and connections in Israel and abroad.

- Manner of providing the services – Moose Holdco shall provide the services to the Company either directly or through assigning the obligations under the Management Agreement to anyone on its behalf, including third parties. Insofar as the management services (all or part thereof) shall be provided by a third party on behalf of Moose Holdco, the Company shall inform Moose Holdco regarding the quality and nature of the services, so that Moose Holdco can assess the services and consider their continued provision (all or part thereof) through anyone on its behalf. Similarly, Moose Holdco may instruct the Company to engage directly with an entity on its behalf as stated in the Management Agreement, under terms identical to the terms of this Management Agreement (or under different terms, with the consent of the parties, and subject to approvals required by law).

- The consideration – the Company shall pay Moose Holdco management fees of ILS 500,000 for each calendar quarter (or a relative share for each calendar quarter during which the Management Agreement shall be valid), plus VAT in accordance with law, against a duly issued tax invoice. The management fees shall be paid by the 30th day of the subsequent quarter.

- Reimbursement – in addition to the management fees, Moose Holdco shall be entitled to reimbursement of reasonable expenses actually incurred for the purpose of providing the management services, including payments made to external consultants, accommodation costs, travel expenses, flight and associated expenses incurred in the provision of the management services, all in accordance with the Company's policies and against presenting a tax receipt, if these costs shall not be paid directly by the Company (the "**Reimbursement**"). The

Reimbursement shall be paid at the same time the management fees are paid, for the calendar quarter preceding the payment date. The costs shall be approved by the Company's CFO, who shall issue an annual report on this subject matter to the audit committee, which shall discuss the reasonableness of the above costs and may reduce them.

- Term and termination of the agreement

The Management Agreement became effective upon completing the issuance under the Prospectus, and shall be valid for a period of five (5) years from the completion date of the issuance (the "**First Agreement Period**"). Following the First Agreement Period, the Management Agreement shall be automatically renewed for subsequent periods of three (3) years each, subject to receiving the corporate approvals required from the Company for this purpose, pursuant to any law.

The Management Agreement shall be valid for as long as Moose Holdco holds at least 18% of the Company's outstanding share capital, or until its termination, whichever comes first. In the event that Moose Holdco holds more than 10% (but less than 18%) of the Company's outstanding share capital, and shall have the right to appoint a director, Moose shall be entitled to receive payment as a director, in the amounts provided in Schedule II and Schedule III to the Companies Regulations (Rules Regarding the Compensation and Expenses of an External Director), 5760-2000, ("**Remuneration Regulations**"), in accordance with the Company's classification ranking as it may be from time to time.

Moose Holdco shall be entitled to assign the agreement to: (a) any corporation, body or person that controls Moose Holdco, is controlled by Moose Holdco, or is under common control with Moose Holdco; (b) any entity that from time to time is part of the investment funds known as AMI Foundation, any other person serving from time to time as the general partner of AMI Foundation, any other person serving from time to time as the investment manager at AMI Foundation or any limited partner in any of the entities that constitute part of AMI Foundation; and (c) any corporation or body that controls, is controlled by or under common control with any of the entities mentioned above in subsection (b). It is clarified that the aforementioned shall not prevent Moose Holdco from providing management services through any person on its behalf.

Notwithstanding the above, the validity of the Management Agreement is contingent upon approval by the Company's authorized organs, for each period as required under applicable law, as it may be at the relevant time. Failure to approve the engagement in the manner required under applicable law shall lead to the immediate termination of such agreement, without any party

having any argument and/or claim against the other with respect to the content of the agreement, except for payment for management services provided prior to such termination.

Notwithstanding the foregoing, each party to the agreement may:

- Terminate the agreement upon the provision of prior notice of one hundred and eighty (180) days (the "**Prior Notice Period**"), provided that in the Prior Notice Period Moose Holdco shall continue to provide the Company with the management services, and the Company shall continue to pay Moose the consideration for the management services.
- Terminate the agreement with immediate effect, without derogating from any other relief that may be at its disposal, should the other party fundamentally breach this agreement or its schedules and fail to remedy such breach within 14 business days from the date the aggrieved party made a written demand.

(2) Shlomo Zohar – From March 3, 2019, Mr. Zohar served as an executive director of the Company and provided it with consulting services, including consulting on strategic matters (the "**Consulting Services**") under a services agreement dated May 16, 2019, signed between him and the Company. From March 2020, Mr. Zohar only serves as one of the Company's directors, without providing Consulting Services. The Consulting Services were provided two days a week, personally and exclusively by Mr. Zohar. Mr. Zohar received a total monthly payment of ILS 30,000 for his services. Under the services agreement, Mr. Zohar committed to the Company to not compete for a period of 12 months from the termination date of his engagement with the Company. For his service as one of the Company's directors, Mr. Zohar is entitled to director fees as detailed below. Similarly, further to the approval obtained from the Company's remuneration committee and board of directors given on November 29, 2020, on December 21, 2020, the Company's general meeting approved of a private allotment of 46,706 non-negotiable options which can be exercised into 46,706 ordinary shares of the Company with no par value to Mr. Zohar. For details regarding the exercise price of these options, the exercise period and vesting conditions see the Company's immediate report dated November 30, 2020 (Ref. No: 2020-01-130497).

(3) Director fees

All of the Company's directors, save for Messrs. Uri Max and Evan Neumann, the Company's controlling shareholders, who are both holding office as Co-CEO, and save for Messrs. Zehavit Cohen and Shay Aba, who are holding office as Company directors on behalf of Moose Holdco, the controlling shareholder of the Company, are entitled to an annual payment and participation fees in the maximum amount stipulated in the Remuneration Regulations, as amended from time to time, according to the Company's tier ranking on the relevant date and to expense reimbursement for participating in meetings, as detailed in the Remuneration Regulations. Furthermore, the directors are also entitled to D&O liability insurance, release and indemnification (for details see Regulation

29A below). During 2020, the Company's directors were paid a total amount of approximately ILS 190 thousands. For further details regarding the remuneration paid to Uri Max and Evan Neumann for holding office as Co-CEO's of the Company, and the remuneration paid to Moose Holdco, see "Additional details about the terms of service and employment of the senior officers" above.

Regulation 21A: Control of the Company

As of the date of the report, the Company's controlling shareholders include Moose Holdco Ltd., Uri Max and Evan Charles Neumann, under a shareholders agreement executed by said persons on September 10, 2020. For details about the shareholders agreement, see Section 3.6 of the Prospectus.

Regulation 22: Transactions with the Controlling Shareholder

Presented below, to the best knowledge of the Company, are details regarding any transaction with the controlling shareholders or in which the controlling shareholders have a personal interest in approving, entered into by the Company in the reporting year or subsequent thereto, until the filing date of the report or which is still in effect as of the report date:

1. **Transactions included within Section 270(4) of the Companies Law** - For details regarding transactions included in Section 270(4) of the Companies Law, see Section 8.7(a) of the Prospectus.
2. **Transactions not included within Section 270(4) of the Companies Law and which are not negligible** - For details regarding transactions not included in Section 270(4) of the Companies Law and which are not negligible, see Section 8.7(b) of the Prospectus. Moreover, for details regarding the approval of the Company's engagement in a POSI (Public Offering of Securities Insurance) D&O liability policy, in accordance with Regulation 1B1 of the Companies Regulations (Interested Party Transaction Reliefs), 5760-2000, following the Prospectus date, which also applies to officers who are controlling shareholders or their relatives, see Section 2.2 of Regulation 29A below.
3. **Negligible transactions** - For details regarding negligible transactions, see Section 8.7(c) of the Prospectus.

Regulation 24: Holdings by Interested Parties and Senior Officers

For details regarding holdings of interested parties and senior officers of the Company, see the Company's immediate reports dated January 6, 2021, January 21, 2021 (Ref. No: 2021-01-002191 and 2021-01-009267, respectively), hereby included by way of reference.

Regulation 24A: Authorized Capital, Outstanding Capital and Convertible Securities

For details regarding the Company's authorized and outstanding share capital, see Note 18 to the financial statements.

Regulation 24B: Company's Shareholder Register

For details regarding the Company's shareholder register, to the best knowledge of the Company, see the immediate report regarding the Company's equity holdings and security registers dated December 23, 2020 (Ref. No: 2020-01-139296), hereby included by way of reference.

Regulation 25A: Registered Office

Registered office:	16 Hashita St., Caesarea.
Email address:	ifat@maxstock.co.il
Telephone no:	073-7695176
Fax no:	04-8241792

Regulation 26: The Company's Directors

Presented below are details about the Company's directors:

Name of Director:	Uri Max	Evan Charles Neumann	Zehavit Cohen (Chair)	Shay Aba	Shlomo Zohar	Limor Brik-Shay	Peretz Goza	Eitan Michael Stoller	Oren Elezra	Susan Mazawi
ID no.	033747825	329888911	058344797	034486100	051979466	039838852	051313450	017156639	037708419	029936606
Date of birth	February 27, 1977	October 10, 1978	November 16, 1963	December 12, 1977	February 13, 1954	April 4, 1983	May 25, 1952	July 30, 1974	July 5, 1983	February 6, 1976
Address for service of court documents	11A Zerubavel St., Tel Aviv	2 Eli Cohen St., Raanana	4 Bercovich St., Tel Aviv	4 Bercovich St., Tel Aviv	5 Spinoza St., Raanana	28 Hakurkur St., Irus	93 Hacarmel St., Kfar Saba	3 Brenner St., Herzliya	13 Arye Shenkar St., Rishon Lezion	17 Irit St., Nof Hagalil, POB 14823
Citizenship	Israeli	Israeli, Australian	Israeli, American	Israeli, Canadian	Israeli	Israeli	Israeli	Israeli	Israeli	Israeli
Member of a board committee/s	No	No	No	No	Financial statements examination committee	No	Financial statements examination committee and audit committee (including in its capacity as remuneration committee)	Financial statements examination committee and audit committee (including in its capacity as remuneration committee)	No	Financial statements examination committee and audit committee (including in its capacity as remuneration committee)
Are they an external, external expert or independent director	No	No	No	No	No	No	External director	External director	No	Independent director

Name of Director:	Uri Max	Evan Charles Neumann	Zehavit Cohen (Chair)	Shay Aba	Shlomo Zohar	Limor Brik-Shay	Peretz Goza	Eitan Michael Stoller	Oren Elezra	Susan Mazawi
The date they started to serve as director	December 16, 2004	July 20, 2017	July 20, 2017	July 20, 2017	March 19, 2019	July 20, 2017	November 23, 2020	November 23, 2020	November 23, 2020	November 23, 2020
Their education specifying the subject areas or fields they studied, the institution they studied in and the academic diploma or professional certificate they hold	12 years education	12 years education, high school certificate	BA in accounting, Duke University USA, MBA in finance, University of Pittsburgh, USA; MA in accounting, University of Pennsylvania, USA.	BA in economics, York University, Toronto, Canada; MBA with a major in accounting and finance, Booth School of Business, University of Chicago, USA.	BA in economics, Tel Aviv University; MBA with a major in accounting and finance, Tel Aviv University.	BA in law from Netanya Academic College; Licensed attorney; MA in business administration and marketing, Netanya Academic College.	BA in economics and extended business administration, Bar Ilan University.	BA in the life sciences and society, Open University, Lifshitz College for Education; MA/Directors' course - life sciences, Haifa University/Beit Berl College; LL.B (law), Shaarei Mishpat Academic Center for Law and Science.	LL.B (law), Ramat Gan College of Law and Business.	BA in communications, Academic College Of Emek Yezreel. Chemical engineering, Technion.
Do they have accounting and financial expertise or hold	Has professional training	Has professional training	Possesses financial and accounting expertise	Possesses financial and accounting expertise	Possesses financial and accounting expertise	Has professional training	Possesses financial and accounting expertise	Has professional training	Possesses financial and accounting expertise	Has professional training

Name of Director:	Uri Max	Evan Charles Neumann	Zehavit Cohen (Chair)	Shay Aba	Shlomo Zohar	Limor Brik-Shay	Peretz Goza	Eitan Michael Stoller	Oren Elezra	Susan Mazawi
professional qualifications										
Employment in the last five years	Co-CEO of the Company, property development	Co-CEO of the Company, businessman and entrepreneur	2006-present: CEO Apax Partners Israel Ltd. See below details regarding her service as a director.	2008-present: Investment manager at Apax Partners Israel. See below details regarding his service as a director.	2015-2018: CEO Shufersal Real-Estate Ltd.; 2012-2018: vice CEO Shufersal Ltd.; management and business development consultant; See below details regarding his service as a director.	Lawyer	7/2020-present: Committee member of the Foundation for the Benefit of Holocaust Victims; 2006-2017: Division head for Clalit Health Insurance Services (Clalit Mushlam); See below details regarding his service as a director.	2008-present: Lawyer and owner, Adv. Stoller & Co. - Law Firm.	2015-present: CEO, Albar Financing Services Ltd.; See below details regarding his service as a director.	2009-present: Owner and chairman, S. K.M Investments & Holdings Ltd.; 1995-present: CEO, Mazawi Advertising Ltd.
Description of the corporations in which they	Director of the Company and	Director of the Company and the	Director of the Company and the following	Director of the Company and the	Director of the Company and the	Director of the Company, Moose	Ashdar Construction Ltd., Shlomo	-	GFI Real Estate Limited	S.K.M Investments & Holdings Ltd.

Name of Director:	Uri Max	Evan Charles Neumann	Zehavit Cohen (Chair)	Shay Aba	Shlomo Zohar	Limor Brik-Shay	Peretz Goza	Eitan Michael Stoller	Oren Elezra	Susan Mazawi
serve as director	representative of the Company as director in the Company's subsidiaries; Director of Uri Max Ltd., Schwartz Max Investments Ltd., Leah & Eliad Holdings Ltd., Max and Neumann Ltd.	following private companies: Oria & Iris Ltd., Discount My Fashion Ltd., Automatfix Ltd.	companies: Apax Partners Israel Ltd., S.R. Accord Ltd., AP.TN. Ltd. Global-e Online Ltd., AMI Consulting Ltd., Zap Group Ltd., Gazit Globe Ltd., Attenti Electronic Monitoring Group Ltd., Go Global Travel Ltd., Ramet Trom Ltd., Ten - Petroleum Company Ltd., The Stef Foundation for Education for Creativity and Industrial Entrepreneurship (R.A.), and a number of SPVs owned by AMI Foundation	following companies: Psagot Investment House Ltd., Psagot Providence and Pension Ltd. and a number of SPVs owned by AMI Foundation, Attenti Electronic Monitoring Group Ltd.	following companies: Silverstein Properties Limited and Melisron Ltd.; External Director of the general partner of Afik 1, LP	Holdco Ltd. and a number of SPVs owned by AMI Opportunities Fund	Holdings Ltd. and Max It Finances Ltd. (formerly Leumi Card Ltd.)			
Are they an	Co-CEO of	Co-CEO	CEO of Apax	Employee	No	No	No	No	No	No

Name of Director:	Uri Max	Evan Charles Neumann	Zehavit Cohen (Chair)	Shay Aba	Shlomo Zohar	Limor Brik-Shay	Peretz Goza	Eitan Michael Stoller	Oren Elezra	Susan Mazawi
employee of the Company, a subsidiary, affiliate or interested party of the Company	the Company, director of the subsidiaries	of the Company	Partners Israel Ltd. and partner of Apax Partners LLP which, *inter alia*, advises the controlling shareholder of the Company (AMI Foundation and Moose Holdco Ltd.)	of Apax Partners Israel Ltd. which advises the controlling shareholder of the Company (AMI Foundation and Moose Holdco Ltd.)						
Are they a relative of another interested party of the corporation	No	No	No	No	No	No	No	No	No	No
Are they a director who the Company sees as having accounting and financial expertise in order to satisfy the	No	No	Yes	Yes	Yes	No	Yes	No	Yes	No

Name of Director:	Uri Max	Evan Charles Neumann	Zehavit Cohen (Chair)	Shay Aba	Shlomo Zohar	Limor Brik-Shay	Peretz Goza	Eitan Michael Stoller	Oren Elezra	Susan Mazawi
minimum number established by the board of directors under Section 92(a)(12) of the Companies Law[5]										

[5] On September 14, 2020, the Company's board of directors established that the minimum number of directors with accounting and financial expertise required under Section 92(a)(12) of the Companies Law, 5759-1999 is 2 directors.

Regulation 26A: Company's Senior Officers

Presented below are details about the senior officers who are not members of the Company's board of directors:

Name of officer	Shlomo Cohen	Ifat Nir-Katz	Oz Kursia	Nir Dagan	Paz Oz	Dan Gustman-Ehrlich	Roy Ben Nun
ID no.	033750035	031684293	033788373	043376904	301279493	037575735	033392879
Date of birth	April 1, 1977	April 26, 1978	March 10, 1977	September 11, 1981	December 3, 1987	August 8, 1975	February 10, 1977
Position in the Company	Deputy CEO	General Counsel and Corporate Secretary	VP Logistics	CFO	Controller	Internal Auditor	VP Trade
Date on which they started their service	August 1, 2015	March 1, 2019	July 4, 2013	August 1, 2016	April 16, 2018	October 1, 2019	November 1, 2019
The position they hold in a subsidiary of the Company, one of its affiliate companies or in one of its interested parties	N/A	N/A	N/A	Chief Financial Officer of the subsidiaries	Controller of the subsidiaries	N/A	N/A
Are they a relative of a senior officer of the Company or of another interested party of the Company	No	No	No	No	No	No	No
Their education	High-school	BA in law from	High-school	BA in business	BA in economics	BA business	BA in economics,

Name of officer	Shlomo Cohen	Ifat Nir-Katz	Oz Kursia	Nir Dagan	Paz Oz	Dan Gustman-Ehrlich	Roy Ben Nun
specifying the subject areas or fields they studied, the institution they studied in and the academic diploma or professional certificate they hold	education	the Interdisciplinary Center Herzliya; BA in business management, major in finance from the Interdisciplinary Center Herzliya; MA in dispute resolution from Bar Ilan University; licensed attorney and holder of a mediation certificate from Gevim Institute.	education	management with a major in accounting from the academic track from the College for Management; CPA; LLM, Bar Ilan University	and accounting, Rupin Academic Center; CPA	management, major in accounting, academic track from The College of Management; MA in public administration, major in internal audit, Bar Ilan University; CPA; licensed internal auditor	The College of Management Academic Studies.
Employment in the last five years	2015-present: Deputy CEO of the Company	March 2019-present: General Counsel to the Company; 2015-2019: partner in the companies and capital markets department of Zysman, Aharoni, Gayer & Co.; 2006-2015: legal advisor to Reshit and corporate secretary of Mashbir 365 Holdings Ltd.	VP Logistics of the Company	July 2016-present: CFO of the Company; July 2012-July 2016: Controller of Israir Aviation and Tourism Ltd.	April 2018-present: controller of the Company; 2016-2018: Assistant controller of Israir Aviation and Tourism Ltd.; 2016: trainee at Bercovich & Co., CPAs; 2015: trainee at Kost Forrer Gabbay & Kasierer, CPA.	Partner in BDO Israel	2019-present: VP trade of the Company; 2019: Elital chain COO; 2012-2018: Delta Israel VP Sales.

Regulation 26B: Company's Authorized Signatories

As of the date of the report, the Company does not have independent signatories.

Regulation 27: Auditor

Company's auditors: E&Y Israel Kost Forer Gabbay & Kasierer.

Address: 2 Palyam Blvd, Haifa 3309502.

Regulation 28: Changes in the Articles of Association of Incorporation Memorandum

On September 14, 2020, the Company's general meeting approved the replacement of the Company's articles of association in effect at that time with new articles of association suited to a public company. The new articles of association became effective upon the completion of the issuance under the Prospectus. For more information see Chapter 4 of the Prospectus.

Regulation 29: Board Recommendations and Resolutions

Presented below are details of recommendations made by the board of directors to the general meeting and resolutions which do not require the approval of the general meeting regarding the following matters:

(1) **Amending the Company's Articles of Association**

See the description included above in Regulation 28.

(2) **Changes in the Corporation's Authorized or Outstanding Share Capital**

On September 1, 2020, the Company's board of directors approved cancelling the par value of the Company's shares and effecting a capital split thereto, such that each ordinary share was split into 3,227.77052 shares with no par value.

Resolutions of the Extraordinary General Meeting (Regulation 29(c))

(1) On November 23, 2020, the Company's general meeting approved the appointment of Mr. Oren Elezra and Ms. Susan Mazawi as Company directors (who are not external directors), for a term of office commencing from the date of the approval of their appointment by the general meeting until the next general meeting, and the appointment of Mr. Peretz Goza and Mr. Eitan Stoller as external directors of the Company, for an initial term of 3 years commencing from the date of the approval of their appointment by the general meeting. For additional details see the Company's immediate reports dated October 19, 2020 and November 23, 2020 (Ref. No: 2020-01-113808 and 2020-01-126093, respectively), hereby included by way of reference.

(2) On December 21, 2020, the Company's general meeting approved the private allotment of 46,706 non-negotiable options, which can be exercised into 46,706 ordinary shares of the Company to Mr. Shlomo Zohar, one of the Company's directors. For additional details see the Company's immediate

reports dated November 30, 2020 and December 21, 2020 (Ref. No: 2020-01-130503 and 2020-01-130444, respectively), hereby included by way of reference.

Regulation 29A: Company Resolutions

Presented below are details regarding release, insurance or indemnification undertakings to officers in effect on the report date (Regulation 29A(4)):

(1) **Officer Release and Indemnification**

On September 14, 2020, the Company's general meeting and board of directors approved granting letters of release and indemnification, as follows:

Letters of indemnification – the Company approved granting letters of indemnification for directors and officers serving and/or who shall serve in the Company from time to time and/or who shall be employed on behalf of the Company in subsidiaries and/or affiliates of the Company as stipulated in the letters of indemnification. Within this framework, the Company undertakes to indemnify in advance the officers, as per the foregoing, for any indebtedness or expense (as stipulated in the letter of indemnity) and/or reasonable litigation expenses, including indemnification from an Administrative Enforcement Proceeding (as defined in the letter of indemnity) and subject to its provisions, provided that the total maximum amount for indemnification shall not exceed, on the aggregate, for all officers, an amount equal to the higher of 25% of the Company's shareholder equity (as it shall be, under the Company's most recent consolidated financial statements, as they shall be prior to the occurrence of an indemnity event) or ILS 78 million, this for each officer and for all of them jointly, for an individual event and on the aggregate for all events. Similarly, the Company undertook to retrospectively indemnify the officers. Said indemnification shall not be granted for any act or omission whatsoever which occurred prior to the date of the completion of the AMI Foundation Investment Transaction (as defined in Chapter 3 of the prospectus) and shall not apply to breaches and representations made in the framework of said transaction.

Release – the Company approved granting letters of indemnification to directors serving and/or who shall serve in the Company from time to time and/or who shall be employed on behalf of the Company in subsidiaries and/or affiliates of the Company as stipulated in the letters of release. Within this framework, the Company releases the directors, as per the foregoing, as they shall be from time to time and each of them individually, from liability for damage which shall be and/or which has been caused to it, either directly or indirectly, due to breach of the duty of care of said directors towards the Company and towards the other companies in the group, occurring in the course of their activities due to them being directors of the Company, or directors on behalf of the Company in subsidiaries and/or affiliates of the Company, all subject to and in accordance with the law. Notwithstanding, the exemption shall not apply with respect to liability for damages caused as a result of breach of the duty of care in a distribution (as defined in the Companies Law), and/or in any proceedings entailing a "counter-claim" of the Company against the director in response to said

director's claim against the Company, except in the event the director's claim is to preserve protective rights under employment law originated in the law and/or under a personal employment agreement between the director and the Company. Similarly, said release shall not apply to: (1) Any resolution or transaction in which the controlling shareholder or officer of the Company whatsoever (including a different officer than the one for whom the letter of release was issued) has a personal interest, as such terms are defined in the Companies Law; and (2) Any act or omission whatsoever which occurred prior to the date of the completion of the AMI Foundation investment transaction and shall not apply to breaches and representations in the framework of said transaction.

(2) **Insurance Policies**

2.1. On September 14, 2020, the Company's board of directors and general meeting approved entering into an insurance policy with Israeli and foreign insurers to cover liability of directors and officers of the Company and its subsidiaries, with respect to directors and officers who serve and/or will serve in the Company from time to time, including directors and officers considered controlling shareholders of the Company, as they shall be from time to time, for a period of one year, from September 14, 2020, until September 13, 2021, with a liability cap of up to USD 50 million per event and for an annual insurance period (the "**Base Policy**"). The terms of the Base Policy shall be identical for all directors and officers of the Company, including directors and officers considered controlling shareholders of the Company or their relatives.

2.2. On January 3, 2021, the Company's remuneration committee, in accordance with the Company's remuneration policy, approved the Company's engagement in a POSI (Public Offering of Securities Insurance) D&O liability policy (the "**POSI Policy**") for the directors and officers of the Company and its subsidiaries, as they may be from time to time. The terms of the POSI Policy and the coverage thereto shall be identical for all directors and officers of the Company, including directors and officers considered controlling shareholders of the Company or their relatives, as they may be from time to time. The POSI Policy provides an extra level of coverage beyond the Base Policy with a liability limit of USD 10 million per event and in total for the annual insurance period. The coverage applies to claims made anywhere around the world, including in the US/Canada, connected to securities, against payment of an annual premium of USD 195 thousands.

March 14, 2021

Date	**Max Stock Ltd.**	
Zehavit Cohen **Chairman of the Board**	**Uri Max** **Co-CEO**	**Evan Charles Neumann** **Co-CEO**